1. National Trade-related Legislation for Croatia

The EU's trade-related legislation serves as the basis of Croatia's national trade-related legislation. As a new EU Member State, joining the EU Community in July 2013, Croatia's government has generally harmonised its technical standards legislation with the EU Directives, as this was an important requirement Croatia had to fulfill to conclude the EU accession negotiations.

We provide below specific national regulatory requirements and responsible state bodies. For a more profound analysis of all the applicable laws and regulations, the relevant EU sections above should be considered. Since the EU consists of independent states, the EU adopts Directives and publishes references to harmonised standards that each member state is required to transpose into its own legislation and national standards system.

1.1 Product Standards[1]

In order to create an internal market where goods legally manufactured in one member state can be sold in a market of another member state without any additional testing and certification, the EU is in a continuous process of harmonising technical regulations, standards and conformity assessment procedures among the member states.

Although the Croatian representative or importer is held directly responsible for product safety and for its conformity with Croatian technical regulations, the ultimate responsibility lies with the manufacturer.

The Croatian Standards Institute (in Croatian: Hrvatski zavod za norme; hereinafter: HZN) is a public institution responsible for preparation, adoption, editing, and publication of Croatian (technical) standards. Any legal entity or natural person with the seat or residence in Croatia may be a member of the HZN and participate in its work. The members include interested Croatian manufacturers, testing and measuring laboratories and certification bodies,

[1] https://www.hzn.hr/default.aspx

educational and scientific institutions, chambers of commerce, industry associations, consumer associations, and government institutions. Only 0.2% of the Croatian standards are of purely Croatian origin; the rest of them are adopted European and/or international standards.

Generally, HZN is an autonomous non-profit public institution established as the national standards body of Croatia with a view to accomplishing the following goals of standardisation:

- increasing the safety level of products and processes,
- protecting human health and lives,
- environmental protection,
- promoting the quality of products, processes and services,
- ensuring the appropriate use of work, materials and energy,
- improving production efficiency,
- controlling variety, ensuring compatibility and interchangeability, and
- removing technical barriers to international trade.

The HZN acts as the enquiry point for the World Trade Organization Agreement on Technical Barriers to Trade (WTO/TBT) and the contact point for Codex Alimentarius.

The HZN maintains an on-line catalogue of Croatian and other standards that can be mailed to interested users for a fee. As per EU directives, the Croatian standards are voluntary.

In Croatia, the Ministry (or other government institution) responsible for preparing and implementing technical regulations for specific products is also responsible for defining the related conformity assessment procedure (for example, the Ministry of Health is in charge for medicinal products, the Ministry of Construction for construction products, and the Ministry of Economy is in charge of the products that are not under authority of any other ministry). The basic elements of the conformity assessment procedure are defined by the

Law on Technical Requirements for Products and Conformity Assessment adopted in 2003 and significantly modified in July 2007.

Although the Croatian Law on General Products Safety states that all products must be safe, some products do not require any certification, some can be self-certified by the manufacturer or importer, and some require a third-party certification before they can be put on the market. For products that can be self-certified, a manufacturer's or importer's declaration of conformity is required and the accompanying technical documentation should be kept on file for ten years (all in Croatian language). When a third-party certification is required, the Ministry or other government institution in charge of that type of product designates appropriately equipped and trained private sector institutions to serve as conformity assessment bodies and authorises them to issue certificates of conformity for that type of product.

1.2 Labelling Requirements

General[2]

The first step in analysis of the marking, labelling and packaging legislation that might apply to a product entering the EU is to draw a distinction between what is mandatory and what is voluntary labelling requirement.

It is also important to distinguish between marks and labels. A mark is a symbol and/or pictogram that appears on a product or its respective packaging. These range in scope from signs of danger to indications of methods of proper recycling and disposal. The intention of such marks is to provide market surveillance authorities, importers, distributors and end-users with information concerning safety, health, energy efficiency and/or environmental issues relating to a product. Labels, on the other hand, appear in the form of written text or numerical statements, which may be required but are not necessarily universally recognisable. Labels typically indicate more specific information about a product, such as measurements, or an indication of materials that may be found in the product (such as in textiles or batteries).

[2] www.export.gov

The following labelling information must be in Croatian on the original package of products subject to quality control: name of the product; full address of the producer or full address of the importer; net quantity, weight or volume; ingredients; usage and storage particulars; and any important warnings about the product for the consumer. Technically complicated products must include instructions for use, the manufacturer's specifications, a list of authorised maintenance offices, warranty, and other applicable data.

Every certified product must carry a CE certification mark indicating that the product has undergone appropriate testing and that it conforms to the provisions of the relevant regulations. Foreign labels are not acceptable; stick-on labels that meet local requirements are allowed for products that contain a foreign label.

Organisation of Market Surveillance in Croatia[3]

In Croatia, there are several authorities competent for Market Surveillance of different products in frame of the Regulation (EC) No. 765/2008 and they have to co-operate in their activities and synchronise their plans and programmes as specified in the Act on the State Administration System. They work as Market Surveillance inspectors within different ministries according to the type of the product. The Market Surveillance authorities and their competence areas are as follows:

- Market Inspection, sector of the Economic Inspections Directorate, in the Ministry of Economy is a general Market Surveillance authority in the field of consumer protection on the internal market for non-food products (for example: electrical equipment, electromagnetic compatibility, energy labelling, textile products, personal protective equipment, the production and placing and making available on the market construction products while construction products in use are in the scope of the Building Inspection of the Ministry of Construction and Physical Planning, etc.).

[3] https://ec.europa.eu

- Ministry of Health:

  - Directorate for Sanitary Inspection is supervising compliance of general use items, cosmetic products, toys, tobacco and products that come in contact with food, manufacturing, sale, use and treatment of chemicals.

  - Health Protection Directorate, Pharmaceutical Inspection controls medicinal products and medical devices.

- The Croatian Post and Electronic Communications Agency (HAKOM) is supervising radio and telecommunication terminal equipment in use and placed on the market.

- Ministry of Maritime Affairs, Transport and Infrastructure, the Maritime Safety Directorate is controlling recreational crafts, while Cableway Inspection controls passenger cableways.

- Market Surveillance of explosive substances is supervised by Ministry of Interior, Inspection of Production and Traffic of Explosive Substances, while the ATEX Directive is under control of Inspection for Fire Protection, Labour Inspection, Electric power Inspection and Mining Inspection.

- State Office for Metrology, Service for Metrological Inspection is supervising administrative and professional tasks referring to official measurements, control of legality of work of authorised legal entities, authorised services and users of legal measuring instruments and monitoring and surveillance of the situation in the field of legal metrology and undertaking measures for good quality activity performance, control of precious metals articles and type approval of vehicles.

Foodstuffs[4]

Food safety system in Croatia includes the Ministry of Agriculture, Fisheries and Rural Development (MAFRD) as the Competent Authority, authorities responsible for drafting and enforcement of legislation (MAFRD, Ministry of

[4] https://www.researchgate.net/publication/268278137_Food_Safety_System_in_Croatia

Health and Social Welfare - MHSW) and other bodies and institutions involved in the food safety system (Croatian Food Agency - CFA, official and reference laboratories, control bodies).

Pursuant to the provisions of the Food Act, the MAFRD has been designated as the Competent Authority, i.e. the central state administration authority responsible for food safety and hygiene, development of the food safety policy, organisation of official controls and for ensuring efficient and effective co-ordination between all bodies and institutions involved in the food safety system and is a contact point for communication with the European Commission.

In Croatia, risk analysis is established as an integral part of a food safety system. Risk analysis, a systematic, disciplined approach for making food safety decisions developed primarily in the last two decades, includes three major components: risk management, risk assessment and risk communication. Risk analysis is a powerful tool for carrying out science-based analysis and for reaching sound, consistent solutions to food safety problems. The use of risk analysis can promote ongoing improvements in public health and provide a basis for expanding international trade in foods. In Croatia, risk assessment is institutionally separated from risk management. Risk management is under the responsibility of the MAFRD and the MHSW, while Croatian Food Agency (CFA) is responsible for risk assessment. The MAFRD and CFA co-operate to ensure the coherence of the risk communication process.

The mission of CFA includes providing scientific advice and technical support, collecting and analysing data to allow the characterisation and monitoring of risks which have a direct or indirect impact on food safety. The Agency does not have a role in the co-ordination of management activities.

The Food Act is the basic framework law on food safety in Croatia. The Food Act transposes the provisions of Regulation (EC) No. 178/2002 of the European Parliament and of the Council of 28 January 2002 laying down the general principles and requirements of food law, establishing the European Food Safety Authority and laying down procedures in matters of food safety.

Food Act provides the basis for the assurance of a high level of protection of human health and consumers interest in relation to food, taking into account the protection of animal health and welfare, plant health and the environment. Food Act covers a general overview and requirements on food safety. It lays down the obligations of food business operators and regulates official control systems; laboratory operations; crisis and emergency management; the rapid alert system for food and feed; and food hygiene. Furthermore, Food Act contains general provisions for traceability which cover all food and all food business operators.

According to the Food Act, primary responsibility for ensuring compliance with food law, and in particular the safety of the food, rests with the food business operators. The Food Act also stipulates general food quality and labelling requirements, as well as general requirements for food made from, or consisting of, genetically modified organisms (GMO). Moreover, the Food Act is a legislative framework for regulating the official control system. In addition to the provisions transposed from the Acquis, the Food Act also contains certain national provisions relating to the CFA, competencies of authorities responsible for carrying out official controls, and penalty provisions for the infringement of certain provisions of the Act.

Legislation brought on the basis of the Food Act covers all stages of the production, processing, distribution and placing on the market of food intended for human consumption. Regarding the placing food on the market, following implementing regulations, which transpose the provisions of the Acquis, have been published under the Food Act: Ordinance on the hygiene of foodstuffs (Official Gazette Nos. 99/07, 27/08 and 118/09), which transposes the provisions of the Regulation (EC) No. 852/2004; Ordinance on the hygiene rules for food of animal origin (Official Gazette Nos. 99/07 and 28/10), which transposes the provisions of the Regulation (EC) No. 853/2004; Ordinance on official controls performed to ensure the verification of compliance with feed and food law and animal health and welfare rules (Official Gazette Nos. 99/07 and 74/08), which transposes the provisions of the Regulation (EC) No. 882/2004; Ordinance on official controls on food of animal origin (Official Gazette Nos. 99/07 and 28/10), which transposes the provisions of the Regulation (EC) No. 854/2004.The Ordinance on microbiological criteria for

foodstuffs (Official Gazette No. 74/08, 156/08, 89/10), which transposes the provisions of Regulation (EC) No. 2073/2005, has also been adopted.

The Food Act regulates:

- general principles and requirements relating to the hygiene and safety of food and feed,
- the obligations of food business operators and feed business operators regarding the hygiene and safety of food, including feed, general requirements relating to food quality,
- general requirements for obtaining the registration of geographical indications and designation of origin for the food and the traditional reputation of the food,
- general requirements relating to the declaration and labelling of food and feed,
- general requirements for placing food and feed on the market,
- general requirements for placing novel foods on the market,
- general requirements for placing on the market food and feed which contains genetically modified organisms or consists of them,
- the system of official control of food and feed,
- the system of authorised testing laboratories and reference laboratories,
- crisis and emergency management,
- foundation of the Croatian Food Agency,
- authority and responsibilities of the competent authorities regarding food and feed produced in Croatia or imported and placed on the market of Croatia.

Origin marking[5]

The country of origin is usually determined according to the following methods:

- the technical or industrial criteria: This defines, with regard to specific types of products, the processes or operations which must have taken place in the country concerned to confer origin. This can also determine certain operations or processes which are considered as being insufficient for conferring origin.
- added value or other economic criteria: Here, for example, the value of the imported materials does not exceed a certain percentage of the ex-works price.
- a change of tariff heading or other customs classification criteria: The goods would be classified under a different heading as a result of the work conducted in the originating country of the imported materials.
- the last substantial processing or working: The origin will be determined by the country where the substantial processing or working has taken place, provided it is economically justified and results in a new product or represents an important stage of manufacturing.

Croatian origin marking law is, for the most part, based on the EU's Directives and Regulations. Currently, there is no EU legislation concerning labelling or marking the country of origin on non-food products imported into the EU, which means that producers and importers are free to include origin information on their products if they wish. However, under the EU customs legislation, the country of origin must always be indicated on the customs import declaration. Furthermore, Directive 2001/95/EC on general product safety obliges distributors to keep and make available the documentation necessary for tracing the origin of products. Directive 2005/29/EC on control of unfair commercial practices prohibits factually incorrect indication of product origin. From 11 July 2013 onwards, the new Cosmetics Regulation requires mandatory labelling of country of origin for imported products.

[5] www.europarl.europa.eu

The European Commission defines "origin" as the "economic nationality of goods in international trade". There are two kinds of origin: non-preferential and preferential.

Non-preferential origin is used to determine the country of origin of goods in the context of origin indication. It does not confer any benefit in terms of duty, but is used principally to assess whether or not goods are subject to commercial policy measures (such as anti-dumping measures, quantitative restrictions) or tariff quotas.

Preferential origin confers certain benefits (such as entry at a reduced or zero rate of duty) on goods from particular countries with agreed arrangements. These goods must either: be manufactured exclusively from raw materials or components grown or produced in the beneficiary country, or have undergone a certain amount of working or processing in the beneficiary country.

The non-preferential origin of products can be "wholly obtained" products and the products that have gone under "a last substantial transformation".

"Wholly obtained" products are products which status applies that only one country is involved in the production of goods. In practice, this is mostly restricted to products obtained in their natural state (e.g. minerals), and to goods made entirely from wholly obtained products or their derivatives obtained in the concerned country.

Products having undergone "a last substantial transformation" are products which involves two or more countries in the production (as in most cases of non-food products). Determining which of them the origin country is may be a complex process. The criterion of last substantial transformation is determined in three ways:

- A change of tariff (sub) heading in the World Customs Organization's Harmonised System Nomenclature. In principle, the headings correspond to the degree of processing. Therefore, a change in the level of classification of the product at the (sub) heading level may confer origin on that product in the country where that change last occurred: e.g. product components come from one country and are classified under a

first heading; a final product derived from these components is manufactured in the second country. This new product is classified under a different heading and the origin is conferred on the manufacturing country.

- From a list of manufacturing or processing operations which do or do not confer on the products the origin of the country in which the operation took place (a provision often used in the textile sector).
- Through a value added rule, under which the increase of value due to assembly operations taking place in a country and incorporation of materials originating in that country must represent a specified percentage of the price of the product to confer the origin on that country.

The legal basis for determining the rules of origin is stipulated in Regulation 2913/92 on the Community Customs Code and its implementing measures (Regulation 2454/93), which is fully accepted in Croatian law.

1.3 Environmental Protection and Waste Treatment Requirements in Relation to Merchandise Sales[6]

Environmental protection

Croatian regulatory and environmental law regarding merchandise sales is, for the most part, based on the EU's Directives and Regulations. As such, these will apply in Croatia, either as transposed national acts (in the case of Directives) or directly (in the case of Regulations).

The EU's environmental laws and policy aim to provide a high level of protection to the environment and human health. The laws cover every aspect of the environment, namely air, water, land use, flora and fauna, noise, soil and waste. In this respect, they also impact on merchandise that is sold in the EU, attempting to achieve ever more environmentally-friendly products, without at the same time excessively burdening producers and importers placing such products on the EU's markets.

[6] www.fzoeu.hr

The laws are intended to provide a broadly equivalent level of protection throughout the EU, and are regularly reviewed and, where necessary, updated. The overall environmental policy is based on the "polluter pays" principle. So-called "polluters" (normally the economic players comprise the industry) are required to pay through the investment needed to meet higher standards or by creating adequate systems to take back, recycle or dispose in a sound fashion, products at their end-of-life.

The scope of work of the Ministry of Environment and Energy includes task related to protection and conservation of the environment and nature in line with the sustainable development policy of Croatia. Under the Ministry, there is Directorate for climate activities, sustainable development and protection of air and soil and from light pollution. The Directorate carries out administrative and expert tasks related to climate change mitigation and adaptation, protection of the ozone layer, preservation of air quality, sea quality and protection of soil, and carries out other tasks related to implementation of measures with the aim of reducing and preventing environmental pollution.

The Directorate issues permits for carrying out activities by which greenhouse gases are discharged, for carrying out activities of air quality monitoring, reference laboratories, pollutant emissions into the air, for carrying out activities of servicing equipment and apparatus that contain ozone-depleting substances and for the collection and recovery of those substances.

The Environmental Protection and Energy Efficiency Fund (EPEEF) is the central point for collecting and investing extra-budgetary resources in the programmes and projects of environmental and nature protection, energy efficiency and use of renewable energy sources.

The sources of funding of the activity of the Fund are secured from the Fund's dedicated revenues:

- Charges on polluters of the environment,
- Charges on users of the environment,
- Charges on burdening the environment with waste,

- Special environmental charges for motor vehicles.

The collection of extra-budgetary revenues based on the “polluter pays” principle in accordance with the acts and regulations in force, provides for the co-financing of environmental protection and energy efficiency programmes and projects, which are aimed at preventing further pollution of the environment, remediation of existing pollution problems and sustainable use of natural resources, as well as organising the system for the management of special waste categories.

At the request of the payer and in accordance with Article 140 of the General Administrative Procedure Act and the Conclusion of the Management Board of the Fund, the Environmental Protection and Energy Efficiency Fund may stay the execution of the decision of the Fund for no longer than six months.

Charges on polluters of the environment

Charges on polluters of the environment comprise the charge for emissions into the environment and a special annual charge for greenhouse gas emissions.

Charges for emissions into the environment

Charges for emissions into the environment comprise the charge for emissions into the environment of carbon dioxide (CO2), the charge for emission into the environment of Sulphur oxides in the form of Sulphur dioxide (SO2) and the charge for emission into the environment of nitrogen oxides in the form of nitrogen dioxide (NO2). Persons liable to pay the charge are legal and natural persons who, as part of their business activity, own or use a single point source of emissions of CO2, SO2 and NO2.

Special annual charge on greenhouse gas emissions

Persons liable to pay the annual charge on greenhouse gas emissions are legal and natural persons who, as part of their business activity, own or use a single point source of emissions of CO2 for which the greenhouse gas emissions permit was obtained, and which is under the decision issued

pursuant to a special regulation governing air protection excluded from the emission allowance trading scheme.

A plant operator may file an application for exclusion from the emission allowance trading scheme to the central state authority responsible for environmental protection if:

- they emit less than 25,000 tons of carbon dioxide equivalent in the period of three preceding consecutive years, in accordance with a verified emissions report,
- in the case of a combustion plant, its rated input thermal power is below 35 MW,
- they implement the measures to achieve an equivalent contribution to reducing greenhouse gas emissions by paying the special annual charge on greenhouse gas emissions.

The special annual charge on greenhouse gas emissions is calculated as the difference between verified emissions from the plant in the previous year and the emission corresponding to the quantity of emission allowances allocated to that plant operator under a special regulation governing the free allocation of emission allowances to plants multiplied by the amount of the unit charge.

The decision on the amount of the unit charge, at the proposal of the minister competent for environmental protection, in accordance with the average market price per allowance in the previous year, will be adopted by the Croatian Government by 31 March of the current year for the previous year.

Charges on burdening the environment with waste

Charges on burdening the environment with waste include the municipal waste charge and/or the charge on non-hazardous technological waste and the charge on hazardous waste. Persons liable to pay the charges on burdening the environment with waste are legal and natural persons disposing non-hazardous industrial waste to landfills, and legal and natural persons who pursue a business activity generating hazardous waste.

Municipal waste charge and/or the charge on non-hazardous technological waste

Municipal waste charge and/or the charge on non-hazardous technological waste is calculated according to the quantity of landfilled waste.

Persons liable to pay the municipal waste charge and/or the charge on non-hazardous technological waste are legal and natural persons disposing municipal and/or non-hazardous industrial waste to landfills.

Municipal waste charge and/or the charge on non-hazardous technological waste is paid by the persons subject to the fee based on the decision of the Fund, where the unit charge per ton of landfilled municipal and/or non-hazardous waste amounts to HRK12.00.

Charge on hazardous waste

The charge on hazardous waste is calculated and paid according to the quantity of produced untreated or non-exported hazardous waste, and according to the properties of waste.

Persons liable to pay the charge on hazardous waste are legal and natural persons pursing a business activity which generates hazardous waste.

The charge on hazardous waste is paid by the persons subject to the fee based on the decision of the Fund, where the unit charge per ton of generated but untreated or non-exported hazardous waste amounts to HRK100.00.

Waste treatment

The main principle in Croatia as regards waste management is product responsibility. The purpose is to create the framework for effective and environmentally-sound waste avoidance, recovery and disposal at the production stage. Manufacturers and distributors are obliged to design their products in a way that waste is avoided during production and subsequent use of the product and that residual substances can be recovered or disposed of in an environmentally-sound manner.

The legislative-regulatory framework for waste management in Croatia seeks to establish a higher quality waste management system based on waste prevention and an efficient system of separate collection of waste which is adequately recovered.

Waste prevention contributes to the accomplishment of the following general goals in waste management:

- separating economic growth from the increase of waste quantities,
- guarding natural resources,
- decreasing the total mass of landfilled waste,
- decreasing the emissions of polluting matters in the environment,
- decreasing the hazard for human health and the environment.

Waste management in Croatia is prescribed by the Act on Sustainable Waste Management. This Act lays down measures for the prevention or reduction of adverse impacts of waste on human health and the environment by reducing amounts of waste generated and/or produced, and regulates the management of waste which includes no operations posing a risk to human health and the environment and involves the use of valuable properties of waste.

Waste separation

Separate collection is the collection of waste in a way that a waste stream is kept separate by type and nature so as to facilitate treatment and preserve the valuable properties of waste.

By 1 January 2015, Croatia must take measures via its competent authorities to ensure separate collection of the following types of waste: waste paper, waste metals, waste plastics and glass, electrical and electronic waste, waste batteries and accumulators, end-of-life vehicles, end-of-life tyres, waste oils, textile and footwear waste and medical waste.

Users of the public service for the collection of mixed municipal waste and biodegradable municipal waste must submit different waste separately from

mixed municipal waste and biodegradable municipal waste. Users bear the costs of municipal waste management in proportion to the quantity of waste submitted to the service provider.

All separately collected waste can be submitted to the recycling yard.

Fees pursuant to the Act on Sustainable Waste Management

In accordance with the Act on Sustainable Waste Management, the producer of products generating waste, or the producer of waste, shall bear the costs of waste management in compliance with the principles of environmental protection laid down by the act governing environmental protection and acquis communautaire of the EU, the principles of international environmental law, scientific knowledge, the best global practice and rules of profession and in particular, among other principles, the "polluter-pays principle" stipulating that the waste producer, the previous waste holder or the current waste holder shall bear the costs of waste management measures and shall be financially responsible for the implementation of remediation measures to be taken due to damage caused or likely to be caused by waste.

Fee for packaging and packaging waste

The producer/importer/introducer shall cover the expenses of collection, disposal and recovery of the packaging waste of products he placed on the market in the territory of Croatia. In this respect, the producer/importer/introducer that places packaging on the market shall pay the disposal fee, returnable fee and simulative fee.

Fee for the management of waste lubricant oils

The person liable to pay the waste oil management fee is the oil producer or a legal or natural person-tradesman that produces and/or imports and/or introduces fresh lubricant oils, irrespective of the selling technique used for own or another party's purposes. The fee is used to cover the costs of waste oil management.

Fee for the management of waste tyres

The person liable for payment of the waste tyre management fee is the producer or the legal person or natural person-tradesman that produces and/or imports and/or introduces tyres as a separate product, and that produces and/or imports and/or introduces vehicles, aircraft and sets of wheels which have tyres as an integral component, for own purposes and/or is placing them on the market of Croatia, irrespective of the selling technique used. The fee is used to cover the costs of waste tyre management.

Fee for the management of waste batteries and accumulators

The person liable to pay the fee for the management of waste batteries and accumulators is the producer and/or importer and/or introducer of batteries and accumulators in the territory of Croatia, and the fee is paid relative to the individual batteries and accumulators imported and/or introduced in Croatia when batteries and accumulators are placed on the Croatian market as a separate product.

The fee is used to cover the costs of collecting, treatment and recycling of waste batteries and accumulators, and the costs of informing the public about the collection, treatment and recycling of all waste portable batteries and accumulators.

Fee for the management of electrical and electronic (EE) waste

Fee for the management of EE waste is paid by the producers and/or importers and/or introducers of EE equipment, i.e. legal and natural persons-tradesmen who place EE equipment on the market (import/introduction/production) in Croatia.

2. Currency Exchange and Regulations[7]

The official currency in Croatia is Kuna. The Croatian National Bank (in Croatian: Hrvatska narodna banka – hereinafter: HNB) has the exclusive right to issue kuna banknotes and kuna and lipa (0.01 kuna) coins and it is responsible for the printing of banknotes and minting of coins, including planning, contracting and the supervision of their production, as well as the management of total reserves.

The Act on the Croatian National Bank provides the regulatory basis for monetary policy implementation. In addition, certain regulations in the field of monetary policy implementation are also based on the Foreign Exchange Act. Pursuant to these acts the HNB Council and Governor adopt subordinate legislation (decisions and instructions) which governs in detail monetary policy instruments and measures.

The HNB implements the policy of the so-called managed floating exchange rate. This means that, on the one hand, the value of domestic currency is not fixed against another foreign currency or a basket of foreign currencies, but rather reflects the developments on the exchange rate market.

On the other hand, the nominal exchange rate of the kuna against the euro is stabilised by occasional foreign exchange interventions by the HNB. The developments on the foreign exchange market are primarily influenced by international capital flows such as the payments related to imports and exports, inflows of foreign exchange related to foreign borrowing, repayments of external debt and inflows of EU funds.

The exchange rate of the kuna against the euro is freely determined on the foreign exchange market, depending on the trends in the foreign exchange supply and demand. The HNB occasionally participates in the foreign exchange market, mostly when it considers the exchange rate fluctuation to be or may become excessive.

[7] https://www.hnb.hr/

Each working day, the HNB sets the value of the kuna against other currencies on the basis of the arranged turnover and the exchange rates of foreign currencies on the foreign exchange market. The value of the kuna against other currencies is published on the exchange rate list of the HNB. The basic currency used for compiling the exchange rate list of the HNB is the euro.

In contrast to the kuna/euro exchange rate, the HNB is not able to affect the value of the kuna against other foreign currencies (US dollar, pound sterling, Swiss franc, etc.) as their values are determined by the exchange rate of the euro against those currencies on the global foreign exchange markets.

Although the current currency in Croatia is kuna, it should change in the near future and the euro should be adopted. In order to enter the euro area, Croatia still has a long way to go and needs to fulfill the Maastricht criteria, especially by reducing debt, lowering budget deficit and lowering unemployment to launch activity that would lead to the ERM-2 in 2020 and later into the euro area.

3. Common Payment Methods

Modern banking system of Croatia offers a full range of payment means, the most significant of which are bank transfers, credit cards, debit cards, cheques, letters of credit and telegraphic transfers via banks.

Traditionally, Croatian customers have preferred to pay with cash, but for online purchases, they tend to use bank cards. The most popular bank cards in Croatia are American Express, Mastercard, Visa and Diners.

In Croatia, online shoppers are also keen on paying for their goods with cash on delivery, while PayPal is another popular payment method, with almost a third of purchases being paid this way.

Credit cards are one of the most common and popular ways for consumers to make purchases online. Multinational financial corporations like Visa, MasterCard, Maestro, American Express and Discover process payments between merchants and card issuing banks, enabling millions of users around the world to make purchases using branded credit cards.

Cross-border money transfers can be carried out by indicating the international bank account number (IBAN) and the bank identifier code (BIC) of the account holder/recipient. The Single Euro Payments Area (SEPA) Direct Debit is a payment arrangement where the debtor/payer authorises a creditor to collect payments from his or her bank account through a signed mandate. The SEPA Direct Debit allows users to pay for goods and services through bank transfers as long as they come from the 34 SEPA member countries.

Bank transfer is a payment method that allows users to transfer funds directly from one bank account to another and is most popular one especially between business users. Users can also transfer cash directly into an account at the bank's cash office.

The terms of payment for imported goods vary according to the type of buyer and the buyer's access to capital. Large organisations such as the government or energy companies tend to transact business on a sight-draft basis, while

small companies tend to operate on documents against acceptable terms. Payment between 80 and 120 days after acceptance is the most common, but terms may vary between 30 and 180 days. For larger orders of capital equipment, longer terms are often required. It is advisable to ship on a letter of credit, sight letter of credit, or 30-day letter of credit basis that the importer can use as a negotiating instrument to expedite the payment transfer. The payment transfer can take effect within 24 to 48 hours after the importer presents a valid import permit and proper documents to his or her bank.

4. Appointment of Sales Agents / Representatives

Agency regulations in Croatia are governed by the Obligations Act. The terms ‘commercial agent’ and ‘principal’ are not directly defined in the Obligations Act. Rather, a commercial agency contract is defined as a contract by which an agent undertakes to negotiate with third persons the conclusion of contracts in the name and on behalf of the principal, while the principal undertakes to pay to the agent remuneration for every contract that is concluded as a result of his activities. The Obligations Act includes the provision of services as well as goods in commercial agency contracts. Further, the legal nature of a contract is to be determined by the evaluation of the overall rights and obligations of the parties as well as taking into account their intentions at the time of contracting. Therefore, whether or not a certain contract should be characterised as an agency contract, should be determined on a case by case basis.

4.1 Recruitment of Agents and Representatives

Business activity of sales agents is regulated through agency contract. Under an agency contract, the agent undertakes to negotiate during the term of the contract, contracts with third persons in the name and for the account of the principal and to, if so agreed, conclude contracts with third persons in the name and for the account of the principal, in exchange for a commission that the principal undertakes to pay to the agent for each contract concluded by him or concluded through his agency.

Agency contracts must be concluded in written form. The agent is obliged to protect the interests of the principal and to act in accordance with the principles of fairness and diligence of an orderly and conscientious businessman in the performance of his work. The agent shall in particular do everything necessary to intermediate and conclude transactions he is authorised for, in accordance with reasonable instructions from the principal. Also, the agent shall notify the principal of all the relevant market developments and particularly those of importance for each specific

transaction. Moreover, the agent shall notify the principal on a regular basis about the fulfillment of his contractual obligations, third persons who are willing to negotiate with the principal or enter into contracts with him and about the contracts he concluded in the name and for the account of the principal.

In negotiating and concluding contracts, the agent shall act in accordance with the instructions from the principal.

The agent is obliged to keep business, professional and official secrets of the principal of which he becomes aware in connection with the work he is entrusted with. He is liable if he uses them or reveals them even after expiry of the agency contract.

If it is necessary for the performance of his work, the principal has to provide the agent with samples, promotional materials and general operating conditions at his expense.

4.2 Commissions and Other Compensations

The principal has to pay the agent a commission for the contracts concluded through his agency during the term of the agency contract and for the contracts which the agent concluded in the name and for the account of the principal. Also, the agent is entitled to a commission for contracts that the principal concluded directly with clients found by the agent.

In case the agent is entrusted on the basis of an agency contract with a sole agency in a certain territory or for a certain group of clients shall also be entitled to a commission for those contracts which the principal concluded in that territory or with that group of clients without the agent's agency. Each reimbursement whose amount depends on the number or the value of realised transactions shall be deemed a commission.

Moreover, the agent is entitled to a commission for a contract concluded by the principal after expiry of the agency contract if the concluded contract is mainly the result of the agent's efforts before expiry of the agency contract and if such a contract is concluded within reasonable time after expiry of the

agency contract or if the offer of a third person for the conclusion of a contract is received by the agent or principal before expiry of the agency contract.

If the amount of commission is not determined in the contract, the agent shall be entitled to the amount of commission commonly paid for such type of work in the place where the agent carried out the work for the principal.

Where it is not possible to determine the amount of commission commonly paid, the agent is entitled to the amount of commission that would be equitable, given the circumstances of the case, and particularly the number and the value of transactions performed by the agent for the principal and their demanding nature and the scope of the agent's efforts.

An agent has a right to a commission at the moment when the principal has fulfilled, or ought to have fulfilled, his performance under a contract between himself and a third person or where the third person is, under a contract with the principal, obligated to fulfill his performance first, at the moment when the third person has fulfilled or ought to have fulfilled his performance, even where he has not done it for reasons attributable to the principal.

In case of a contract between the principal and a third person stipulating consecutive performances to be fulfilled through a certain period of time, the agent shall have the right to a proportionate share of the commission.

In case of non-fulfillment of a contract between the principal and a third person through no fault of the principal the agent shall lose the right to commission.

Unless otherwise agreed, the agent is not entitled to reimbursement of his regular operating expenses.

To ensure payment of his due claims under the contract, the agent has the right to retain the sums collected for the principal under his authorisation and all the things of the principal which he received from the principal or some other person in connection with the contract, as long as he keeps them or as long as some other person keeps them on his behalf, or as long as he holds a document enabling him to dispose of them.

After the contract has ended, the agent is entitled to a special fee if he has found new clients for the principal or has made a significant contribution in terms of increasing the principal's business with the existing clients, and the principal has derived significant benefits from such clients after the contract has ended.

The amount of special fee may not exceed the amount of the average annual commission in the last five years, and in case of a contractual relation with a duration of less than five years, the amount of average annual commission during the term of the contract.

5. Establishment of Sales Offices / Subsidiaries

5.1 Representative Office[8]

Generally, a representative office in Croatia may be established by a foreign person performing an economic activity and by national or international economic organisations. A representative office may be set up for market research and for the representation of the founder. It is not a legal entity and is considered to be part of the founder. It may not engage in activities of the founder or contract jobs for the founder but performs tasks on behalf of the founder. As an exception, representative offices of foreign airlines may sell air tickets in accordance with the international agreements signed by Croatia and international conventions. A representative office performs its activities under the founder's company with an indication that it is a representative office.

A representative office may start its activities only after registration in the registry of Foreign Party Registry kept by Ministry of Economy, Entrepreneurship and Crafts. Foreign entity that wishes to establish its representative office in Croatia should submit an application containing:

- company name, headquarters and business activity of the founder;
- headquarters of the representative office in Croatia;
- basic information concerning the party responsible for the representative office activity (name, surname, place of residence, identity card number, certificate of nationality number or passport number for Croatian citizens and, for foreign citizens, passport number and the country that issued it);
- description of the representative office activities.

Following documents should be submitted together with the application:

- decision of the founder concerning the establishment of a representative office containing the representative office name and headquarters;

[8] www.investcroatia.hr/

- decision on the appointment of the person responsible for the representative office activities (manager);
- excerpt from the Commercial Register in the country of origin or any other valid document on establishment under the regulations of the country where the founder's headquarters are (legal form of incorporation date of the foreign company should be clearly stated in the document);
- receipt for paid administration fee in the amount of HRK1,000.

Representative office will be registered within 30 days of receiving complete application forms and documents.

Please note that after Croatia's accession to the EU, economic entities that come from other EU Member States no longer have the possibility to open representative offices in Croatia, but only to register a branch office or to open a local company or register a craft.

5.2 Setting Up a Branch Office[9]

Foreign companies may under the Croatian law, engage in economic activities through the establishment of a branch office.

The branch office executes its activity under the company name of the founder. A branch office is not a legal entity but accepts while executing its activities the rights and obligations for its foreign founder. All rights and liabilities of branch offices are taken by the founder. In case of disputes with a third party, the party is not a subsidiary but the company to which it belongs. From the accounting and taxation point of view, it is treated as a taxpayer in the same manner as legal persons.

In general, branch office has no independent or separate legal personality distinct from the head office itself. In legal and organisational terms, it is part of the head office business and is therefore subject to the law governing the head office. In this context, the foreign head office company is fully liable to the extent of its own assets for any claims creditors might assert against the

[9] www.investcroatia.hr/

branch office. Any obligations or debts incurred by the branch office are also legal responsibility of the foreign company.

Registration of the branch office is made with the Court Registry based on the branch office location. The branch office may be set up by a special decision brought by:

- a craftsman or an owner of the company in accordance with the Articles of Incorporation;
- a relevant corporate body in accordance with the Articles of Incorporation, public contract or corporate statute.

The Articles of Incorporation of the branch office should be notarised by a notary public and it should contain:

- company and headquarters of the founder and headquarters of the branch office;
- business subject of the founder and the branch office activity;
- the amount of equity capital and the number of shares paid, if the founder is a limited liability or a joint stock company;
- names of the company members personally liable for obligations of a company or a craft, if the founder is a public limited or limited partnership company;
- name, or names and residence(s) of the persons authorised to represent the founder in business activities with the branch office.

Apart from the application, the following documents must be submitted in the original language together with their notarised translation in Croatian:

- registry excerpt containing information on the founder, the legal form and the time of the establishment of a foreign company;
- decision of the founder to establish the branch office;

- certified transcript of the statement about the establishment of the company in accordance with the rules of the country the founder has registered headquarters in (Articles of Incorporation or company statute);
- certified brief financial report for the founder's previous business year.

5.3 Permanent Establishment (PE)

A PE of a non-resident shall be the permanent place of business through which the non-resident carries out, entirely or in part, a business activity in Croatia. PE of a non-resident entrepreneur shall in particular include:

- a place of management,
- a branch,
- an office,
- a factory,
- a workshop,
- a mine, oil or gas well, stone quarry or any other place of natural resource exploitation,
- a building site, or a construction or an assembly project, which constitutes permanent establishments only if they last longer than six months.

A PE of a non-resident entrepreneur shall also be an agent acting on his/her behalf with respect to any activity, in special cases.

Furthermore, CPT legislation stipulates that PE of a non-resident entrepreneur shall also be the provision of services, including advisory and business services, if the provision of services for the same or related project lasts longer than three consecutive months in any period of 12 consecutive months.

Additionally, the CPT legislation stipulates that the term "permanent establishment" shall be deemed not to include:

- the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise;
- the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;
- the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;
- the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise or of collecting information, for the enterprise;
- the maintenance of a fixed place of business solely for the purpose of advertising, for the supply of information, for scientific research or similar activities which have a preparatory or auxiliary character for the enterprise; and
- the maintenance of a fixed place of business solely for any combination of activities mentioned above, provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

6. Incorporation of a Business

The Croatian Companies Act regulates company law in Croatia.

There are several types of legal forms available to investors who are interested in investing in Croatia. As per Croatian Companies Act, the following types of organisations are possible:

- Limited liability company (d.o.o.),
- Simple limited liability company (j.d.o.o.),
- Joint-stock company (d.d.),
- Economic interest grouping (g.i.u.)
- General partnership (j.t.d.)
- Limited partnership (k.d.)

The general distinction between businesses is their division on personal companies with individuals closely associated with the business and capital companies based on associating capital rather than persons.

Personal companies are general (unlimited) partnership (javno trgovačko društvo – j.t.d.) and limited partnership (komanditno društvo – k.d.).

Capital companies are joint-stock company (d.d.), limited liability company (d.o.o.), simple limited liability company (j.d.o.o.) and the economic interest grouping (g.i.u.).

The share capital and liability makes the main difference between these two organisational forms. In personal companies, there has to be at least one member who is personally liable for the obligations of the company.

In capital companies, members of the company are not liable for the obligations of the company. However, under certain conditions, members of the company can be liable for the obligations of the company (e.g. in case of

abuse). Both groups of businesses have legal entities separate from their owner.

The most preferred legal form of organisation is limited liability company (d.o.o.).

Limited liability company (d.o.o.)

Limited liability company (d.o.o.) is a company where the members have their liability limited by the contribution to the company's capital and are not responsible for their own assets for the company's debts. It can be incorporated by a single member, with a minimum share capital of at least HRK20,000.

Contributions to the share capital may be made in cash or in kind. Prior to registration, each founder must pay in 100% of its contribution in kind and/or at least 25% of his/her cash contribution, provided that the total amount of all cash contributions paid in before registration is no less than HRK10,000.

The name of this type of business must be unique, followed by the termination "d.o.o."

The annual administrative cost for operating of a Croatian company depends on the level of activity of the company, revenues, location of the real estate (some local taxes may be lower in suburban areas), number of employees, etc.

Generally, a Croatian company will be subject to VAT, CIT and PIT (if there will be any employees) and will be paying various duties such as tourism board membership fee, chamber of commerce fee, monument fee, forest fee, etc.

Director in a Croatian company can be any natural person (no legal entity can be director of Croatian company) competent for legal acts. Every citizen of EU can be director of a Croatian company. Special rules apply if the director is a non-EU citizen. Director does not need to be employed in the company.

Simple limited liability company (j.d.o.o.)

Simple limited liability company has reduced minimal share capital required for incorporation of a company to HRK10.00. Contributions to the share capital of such a company may only be made in cash and have to be paid in full prior to registration.

Company incorporation is easier because there are prescribed forms verified by the notary public; there is no compulsory publication of company incorporation in the Official Gazette.

However, there is a restriction of the number and group of persons who can be founders of a simple limited liability company. The number of simple limited liability company members is limited to three. There are also limitations with regards to profit distribution, which do not apply to regular limited liability companies.

Also, one of the most important differences to the limited liability company is that simple limited liability companies must keep their legal capital reserves where they must place a quarter of the yearly income shown in the annual financial reports.

There is possibility of conversion of simple limited liability company into regular limited liability company if the company adequately increases its share capital.

Joint-stock company (d.d.)

Joint-stock company (d.d.) is a legal person whose share capital is divided into stocks owned by stockholders.

Joint-stock company can be set up in two ways. One is simultaneous incorporation and the other is successive incorporation. In the first case, founders undertake all shares, adopt and execute the Articles of Association and declare the establishment of the company.

In the second case, founders adopt the Articles of Association, undertake a part of the shares and issue a public prospectus for the subscription of shares. In both simultaneous and successive incorporation, the company is established at the moment of the registration with the court.

The minimum share capital of a joint stock company is HRK200,000.

Members have their liability limited to their contribution to the company's capital and their own assets are not liable for the company's debts.

With regards to the corporate governance, joint-stock companies can have two-tier corporate governance structure (management board and supervisory board) or one-tier corporate governance structure (only a board of directors with one or more executive directors).

In two-tier system, members of the supervisory board are elected at the shareholders' assembly. The supervisory board supervises the management of the company. Members of the supervisory board oversee business of the company.

In one-tier system, members of the board of directors are elected at the shareholders' assembly.

The board of directors appoints one or more executive directors. If there are several executive directors, one shall be appointed as the chief executive director. Executive directors manage and represent the company.

Economic interest grouping (g.i.u.)

Economic interest grouping is a legal person founded by two or more natural or legal persons in order to make easier doing business together and to promote their registered business activities. Also, one of the aims of the economic interest grouping is to make business more efficient.

General partnership (j.t.d.)

General partnership is a legal person separate from its members. However, each member is personally liable for debts of the partnership.

Each member represents the partnership, except where the partnership agreement states otherwise.

Each partner is authorised and obliged to manage the partnership unless otherwise provided by the partnership agreement. The authority to manage the partnership extends to all actions normally taken in the course of conducting business. An action cannot be taken if a partner authorised to manage the partnership objects to the action. Actions outside normal business can only be taken with the consent of all partners.

Limited partnership (k.d.)

In a limited partnership, at least one partner is personally liable for the obligations of the partnership (the general partner) and at least one partner is not liable for the debts of the partnership if he/she has paid in a contribution (the limited partner).

Limited partners are excluded from management. They can only object to decisions made and actions taken by general partners outside the normal course of business.

Each general partner of a general commercial partnership is authorised to represent the partnership, except where the partnership agreement states otherwise. Such restrictions have no effect on third parties. Limited partners are excluded from representation.

Setting up a company

The most preferred legal form is limited liability company (d.o.o.). Below described is the process of setting up limited liability company.

OIB number

First step in the process of company formation is obtaining so called OIB number (personal identification number) with the tax authorities for founders of the company and directors of the company.

OIB number can be obtained via power of attorney. Physical presence is not needed. For natural persons, copy of passport must be submitted and for companies excerpt from the court registry is required.

Company name

Next step in the company formation process is to check the company name availability with the Court Registry. The procedure is free and can be done online. If the name is available, the company name reservation process can be initiated. There is a small fee to be paid for the procedure. The Court Registry will check the company name reservation application and if it meets all legal criteria, will proceed with the reservation.

The reserved company name is visible on the sudreg.pravosudje.hr website and valid for 30 days. If the reserved company name is not used for company registration within 30 days, it is deleted from the registry. After that period, new reservation application needs to be submitted.

Legalisation of public documents

Public documents issued abroad may be used in Croatia (unless otherwise provided by bilateral or multilateral agreements) if they are legalised in accordance with the regulations of the country of issuance and verified in a Croatian diplomatic or consular mission in that country (with the official translation in Croatian), or, if after legalisation, and in accordance with the regulations of the country of issuance, are verified in the diplomatic / consular mission of that country in Croatia and are legalised (verified) in the Ministry of Foreign and European Affairs of Croatia.

In the event that Croatia has neither a diplomatic / consular mission in the country issuing the document, nor does that country have diplomatic /

consular mission in Croatia, the legalisation (verification) is carried out in a third country in which both countries have a diplomatic / consular mission as follows: after the certification of documents by the competent authority of the country in which they are issued, documents are verified by country's diplomatic / consular mission in a third country, then by the ministry of foreign affairs of the third country and finally by the diplomatic / consular mission of Croatia in that third country.

All procedures for company formation in Croatia must be performed through a public notary. A registered office is also necessary for setting up a company in Croatia.

Notarisation of documents

The public notary prepares the documentation, which is then signed by the business founders and notarised.

The documents necessary for the registration of a company are:

- Articles of Association
- Decision on Appointment of the Director
- Statement on the Acceptance of the Appointment
- The director's signature specimen
- The founders' declaration on absence of overdue payments on taxes and social security payments
- The application of registration of the company
- List of shareholders and directors

Official stamp

Official stamps are available at special stamp-making shops. The stamp should be used on all official documents (e.g. invoices, receipts and other) issued by the company.

Share capital

Share capital must be deposited using a temporary bank account prior to register of the company with the Commercial Court.

Proof of deposit of paid-in capital has to be submitted to the Commercial Court in the moment of the registration of the company with the court registry.

Registration with the Bureau of Statistics

Notification of Classification pursuant to the National Classification of Activities contains the assigned business identification number.

Applying for a statistical file number can be done at the Croatian Bureau of Statistics.

The following documents should be submitted:

- Copy of the Commercial Court's Decision on the entry into Court Registry;
- Copy of the Personal Identification Number (OIB) for the company;

Submitting prescribed form is required to obtain a Notification of Classification pursuant to the National Classification of Activities of the State Institute of Statistics (assignment of business identification number and the principal activity code).

Registration with the Commercial Court

The last step before the company is incorporated is the registration with the Register of Companies, kept by the competent Commercial Court.

Companies have to obtain a hard copy of incorporation certificate, which is typically provided in 2 weeks. The certificate is needed to prepare company seal, open a bank account, and can be requested from different authorities (e.g. Tax Administration).

Opening bank account

Prior to the registration with the tax authority, company has to open transaction account at one of the business banks in Croatia. Transaction account enables company to perform of cash and non-cash payment transactions in kuna and other currencies. In order to open a transaction account, there should be submitted required documents. Also, bank's forms have to be filled out. The agreement on opening transaction account has to be signed by person who is authorised to represent the company. Bank identifies authorised person when opening the account. It is important to note that in this step physical presence of the company director is needed.

Documents required to open a company bank account are:

- Commercial Court's Decision on the entry into Court Registry,
- Statistical registration number of a Company,
- Personal identification number (OIB) of a Company,
- Copy of the passport of the responsible person of the company.

Registration with the Tax authority

Final step in the process of company formation is registration with the competent tax authority.

Generally, new company in Croatia will be subject to VAT, CIT, PIT (if there will be any employees).

In order to register company with the tax authority, the responsible person of the company has to fill out and sign the prescribed form (P-PDV form) and submit the following documents:

- Commercial Court's Decision on the entry into Court Registry,
- Statistical registration number of a Company,
- Copy of agreement on opening transaction account,

- Copy of director's signature specimen,
- Agreement on lease of business premises,
- Agreement on accounting services,
- Written statement on planned business activities.

Registration with the Croatian Institute for Pension Insurance

If there will be any employees, the company must also register each of its employees with the Croatian Institute for Pension Insurance within 24 hours. Company with 3 or more employees is obligated to register/deregister employees at Croatian Institute for Pension Insurance exclusively online.

Croatian Institute for Pension Insurance and Croatian Health Insurance Fund are electronically connected, thus it is only needed for the company to register with Croatian Institute for Pension Insurance and the registration will be done automatically with Croatian Health Insurance Fund.

7. Taxes

The Croatian tax system is comparable to those of the tax systems of other European states with developed, market-oriented economies. Taxes are mainly levied on income, sales and specific transactions. Any business income subjects the business to corporation tax. An income earned by individuals is subject to personal income tax. Generally, domestic sales and imports are subject to Value Added Tax (VAT), other taxes, excise duties and fees.

Taxes are mainly self-assessed. The tax return should be filed and payment should be made by the taxpayer within the period set by law. The processing of tax returns, entering tax liabilities in tax records, collecting and refunding taxes is the responsibility of the Tax Administration which is vested in the Ministry of Finance.

7.1 Corporate Income Tax

Croatia has taken over a part of German legislative system and German experts assisted in creation of the Croatian tax system, especially Corporate Income Tax (CIT) which was implemented in 1998.

The following entities are subject to Corporate Income Tax:

- A company or another legal or natural person who is a resident of Croatia performing its business activity independently, permanently or for the sake of achieving profit, income or revenue or other business relevant benefits,
- A business unit of a foreign entrepreneur in the country (non-resident),
- A natural person who generates income according to the regulations on income taxation if it states that it will pay profit tax instead of income tax,
- A natural person who generates income from crafts or activities equal to crafts according to the regulations on income taxation:

- if in the previous tax period it generated a total revenue higher than HRK3,000,000, or
- if it fulfills two of the following three conditions:
  - in the previous taxation period, it generated income above HRK400,000,
  - has long-term assets above HRK2,000,000,
  - in the previous taxation period it has employed more than 15 employees on average.

- Exceptionally, state administration bodies, bodies of regional self-government, local self-government bodies, the Croatian National Bank, state institutions, institutions of units of regional self-government, institutions of units of local self-government, state institutes, religious communities, political parties, trade unions, chambers, associations, artistic associations, voluntary firemen associations, technical culture associations, tourist associations, sports clubs, sports associations and organisations, trust funds and foundations, if performing a business activity and if non-taxation of the activity would lead to the acquisition of unjustified privileges on the market, are corporation tax payers for that activity.
- Any entrepreneur who does not belong within the entrepreneurs listed in previously and who is not an income tax payer according to the regulations on the income taxation and whose profit is not taxed elsewhere.

Tax treatment of residents and non-residents is equal. Taxation of non-residents is conducted with respect to double taxation avoidance agreements which Croatia has signed with 61 countries. Companies resident within Croatia are subject to CIT on their world-wide income. Non-resident companies are taxed only on their Croatian-source income.

The corporate income tax base is the accounting profit adjusted for deductions and disallowed items in accordance with the provisions of the CIT Act.

Companies in Croatia are mandatory in the preparation of financial statements to apply the International Financial Reporting Standards and Croatian Financial Reporting Standards, as well as legislation, primarily the Corporate Income Tax Act (further CIT Act), which have a significant impact on financial reporting.

The tax base also includes gains arising from liquidation, sale, change of legal form, and division of the taxpayer where it is determined at the market price.

Expenditures are not considered to be deductible expenditures if they are not related to the taxpayer's business activity.

The corporate income tax base is increased by the following items:

- 0% of entertainment expenses (food and drink, gifts with or without the company's printed logo or product brand and expenses for vacation, sport, recreation and leisure time, renting cars, vessels, airplanes and holiday cottages), up to the amount of the costs arising from a business relationship with a business partner;
- 50% of the cost, except for insurance and interest expenses, incurred in connection with own or rented motor vehicles or other means of personal transportation used by managerial, supervisory and other employees, unless the use of such means of transport is defined as a salary component;
- Personal expenses of shareholders and partners (withdrawals), as well as employees (entertainment, relaxation, sport and recreation costs) including value added tax;
- Fines imposed by competent bodies;
- Accrued penalty interest invoiced by the related person;
- Privileges and other economic benefits granted to natural persons or legal entities for the purpose of causing or preventing a certain event;
- Gifts in kind or cash made in Croatia for cultural, scientific, educational, health, humanitarian, sports, religious, environmental or other socially

beneficial purposes to associations and other persons engaged in the above-mentioned activities pursuant to special regulations, if they exceed 2% of the revenue generated in the previous year;

- Interest on loans received from a shareholder or partner holding at least 25% of shares or equity capital or voting rights in a taxable entity, provided that, in any tax period, these loans exceed the fourfold amount of such shareholder's or partner's share of the capital or voting rights, determined in relation to the amount and duration of loans in the taxable period, except for interest on loans from financial institutions (i.e. thin capitalisation rule);
- Interest calculated at a rate in excess of 4.55% (for year 2018) per annum on loans provided by a foreign-related party. Alternatively, a taxpayer may perform its own interest rate benchmark and determine a different excessive interest rate if it is supported by a benchmarking analysis as being at arm's length in the given circumstances and applied to all loan contracts as such;
- Write-downs of inventories and financial assets.

The corporate income tax base is reduced by the following items:

- Income from dividends and profit-sharing;
- Unrealised gains from value adjustments of shares if they were included as income in the profit and loss;
- Income from collected written-off claims that were included in the tax base in the previous tax periods but not excluded from the tax base as recognised expenditure;
- The amount of depreciation not recognised in previous tax periods;
- The amount of tax relief or tax exemption in line with special regulations

As of 1 January 2017, the standard CIT rate was reduced from 20% to 18%. For taxpayers with revenues in the tax period lower than HRK3 million, a rate of 12% is applied. Taxpayers who perform their business activities in the local

self-government areas classified in the first group of development (determined in accordance to a special legislative on regional development of Croatia), and who employ more than five permanent employees, under the condition that more than 50% of its employees have residence and live in the supported areas, classified in the first group according to their level of development, or in the City of Vukovar, pay 50% of the prescribed tax rate. In addition, other incentives may exist under the Investment Promotion Act.

The tax period is the calendar year. Corporate income taxpayers pay monthly advance payments based on the previous year's annual CIT return. Any CIT shortfalls at year-end must be self-assessed in the annual CIT return and paid by the taxpayer by 30 April of the current year for the previous year, by which date the annual CIT return must be submitted.

Tax losses can be carried forward for up to five years. Tax loss carry-back is not available and there are no tax consolidation rules/group relief rules.

Withholding tax (WHT) at a rate of 12% applies to payments of dividends and profit shares paid to foreign legal entities made on or after 1 March 2012, but not for payments of dividends and profit shared or earned before that date.

WHT at a rate of 15% applies to certain payments made to non-resident legal person (for specific interest payments, payments for intellectual property rights, market research, tax advisory, business advisory and audit services).

WHT at a rate of 20% applies to payments for services, other than the above-mentioned services, made to legal persons outside the EU, if the legal person has their registered seat or place of effective management and supervision in a country which is considered to be a tax haven or financial center, if Croatia does not have a double tax treaty with that country, and if the country is included in the appropriate list published by the Croatian Ministry of Finance.

The WHT rate may be decreased/eliminated where an effective double tax treaty exists to which Croatia is a party.

In addition, for transactions between companies from EU Member States, respective Directives apply.

7.2 Value-added Tax

The Value-added Tax, or VAT, in the EU is a general, broadly based consumption tax assessed on the value added to goods and services. It applies more or less to all goods and services that are bought and sold for use or consumption.

Valued-added tax (VAT) has been applied in Croatia since 1 January 1998. Croatia joined the EU as the 28th member state on 1 July 2013. As part of its accession, Croatia brought in a number of changes to its VAT regime in order to comply with the EU VAT Directive. It is in line with the Directive of the EU and is of the consumption type and principle destination. During the calculation of the tax liability, the credit method is used, what makes possible the deduction of tax prepayment. Croatia follows the EU rules on VAT compliance, however it is still free to set its own regulations in specific field (e.g. VAT rate).

Croatian VAT legislation and regulations can be found on the website of the Tax Administration of Croatia (www.porezna-uprava.hr) in Croatian, and the VAT Act is also available in English.

7.2.1 Subject of taxation

Taxpayers of value-added tax in Croatia are:

- Any person who, independently, carries out any economic activity, whatever the purpose or results of that activity;
- Any person who, on an occasional basis, supplies a new means of transport;
- Taxable person which is not established and has no fixed establishment rendering supplies, or permanent address or habitual residence in Croatia and who supplies goods and perform services in the country, for which the place of taxation is in Croatia (unless if the Croatian recipient of goods and services pays VAT). Taxable persons established in the EU may appoint a tax representative in Croatia, while taxable persons

established outside the EU shall be obliged to appoint a tax representative as a person who will be liable for payment of the VAT;

- State government bodies, state administrative bodies, bodies and units of local and regional self-government, chambers and other legal persons with public authority if they carry out economic or other activity and non-taxation of those activities would lead to significant distortions of competition.

The obligatory VAT registration threshold in Croatia for resident companies is HRK300,000. Once this threshold is crossed within the fiscal year, the company is obliged to submit an application for registration by 15 January on the following year. An enterprise may, if it wishes, voluntarily apply on the basis of the expected turnover.

Companies with a Croatian VAT number must submit periodic returns detailing all supplies (sales) and inputs (purchases). VAT returns in Croatia are submitted on a monthly or quarterly basis depending on turnover. The deadline for submission of monthly returns is the 20th of the following month. Companies trading below HRK800,000 per annum may opt for quarterly returns instead. No annual VAT return is to be submitted.

7.2.2 Object of taxation/ Taxable base

Transactions falling within the scope of the VAT are taxable. Not all taxable transactions are taxed, i.e. some can be exempt. Generally, there are **4 types** of transactions on which VAT is chargeable:

- Supply of goods in the country for consideration carried out by taxable person acting as such, on which taxable base is considered for goods supplied;
- Acquisition of goods within the EU for consideration in the country, on which taxable base includes everything that the acquirer paid or has to pay to the supplier;
- Services supplied in an EU country by a business;

- Imports of goods, on which taxable base is determined in accordance with customs regulations.

7.2.3 Tax rates

The standard rate of 25% is applied for most goods and services. There is a reduced VAT rate of 13% for accommodation, food and newspapers. VAT at a rate of 5% is applicable to selected foodstuffs, books and medical equipment.

7.2.4 Taxable amount

The taxable amount is the amount in respect of a taxable transaction on which VAT is chargeable (usually, the price of the goods or services). The taxable amount in case of supply of goods and services shall include everything which constitutes consideration:

- obtained or to be obtained by the supplier in return for the supply
- from the customer or a third party, including subsidies directly linked to the price of the supply.

Where a supply is cancelled or refused or payment for the goods or services is either wholly or partly withheld, or the price is reduced after the supply takes place, the taxable amount must be reduced accordingly.

If a foreign currency is used in the documents required for calculation of the taxable amount, the exchange rate of the Croatian National Bank is used at the time the VAT becomes due. Businesses may use the European Central Bank's latest published exchange rate.

7.2.5 Place of supply

The supply of goods is **taxed** at the place:

- where the goods are **located** at the time the supply takes place, if they are **not dispatched or transported**

- where the goods are **located** when the **dispatch or transport** to the customer **begins**, if they are **dispatched or transported** by the supplier, by the customer, or by a third party
- where the goods are **located** when the **dispatch or transport** to the customer **ends** for distance sales when the supplier's annual sales are **above the** threshold applied by the customer's Member State
- where the goods are **located** when the **dispatch or transport** to the customer **begins** for distance sales if the supplier's annual sales are **below the** threshold applied by the customer's Member State (except if the supplier has opted to tax in the Member State of destination)
- where the goods are being **installed or assembled**, if done by the supplier.
- where the **point of departure** is, if supplied **on board ships, aircraft or trains** during the section of a passenger transport operation effected within the EU
- where **the taxable deliveries established** when receiving **electricity or gas supplied through the natural gas distribution**
- where **electricity or gas supplied through the natural gas distribution system** is **effectively used and consumed** by the private customer

Intra-Community acquisition of goods

The place of taxation is determined by where the intra-EU acquisition of goods is made (i.e. the Member State where the goods are finally located after transportation from another Member State). Goods acquired in Croatia by a taxable person acting as such (a business in its business capacity) or by a non-taxable legal person (for example, a public authority) are generally subject to VAT in Croatia.

The acquisition of goods is taxed in the **Member State issuing the VAT number (Member State of identification)** under which the acquisition is made. Should the goods **be transported to another Member State (Member**

State of arrival) tax must be paid there. This will be followed by an adjustment of the VAT paid in the Member State of registration.

Supply of services

The place of taxation is determined by **where the services are supplied**. This depends not only on the **nature of the service** supplied but also on the **status of the customer** receiving the service. A distinction must be made between a **taxable person acting as such** (a business acting in its business capacity) and a **non-taxable person** (a private individual who is the final consumer).

Only when the exact nature of the service and the status of the customer are known can the place where the services are supplied be correctly determined.

Generally, the supply of services **between businesses** (B2B services) is **in principle** taxed at the **customer's place of establishment**, while services supplied to **private individuals** (B2C services) are taxed at the **supplier's place of establishment**. However, in order to ensure that VAT receipts accrue to the Member State of consumption, several exceptions have been introduced, for example:

- B2C services provided by an intermediary are taxed at the location where the main transaction, in which the intermediary intervenes or occurs,
- **B2B and B2C services connected with immovable property** are taxed where the immovable property is located,
- **B2B and B2C passenger transport** is taxed according to the distances covered,
- **B2C transport of goods**, other than intra-EU transport, is taxed according to the distances covered,
- **B2C intra-EU transport of goods** (goods departing from one Member State and arriving in another) is taxed at the place of departure,
- **B2C ancillary services to the transport of goods**, such as the loading and unloading services, are taxed in the Member State where those services are physically carried out,

- **B2B services** in respect of **admission** to **cultural, artistic, sporting, scientific, educational, entertainment and similar events** will be taxed at the place where those events actually take place,

- **B2C services** relating to **cultural, artistic, sporting, scientific, educational, entertainment and similar activities** will be taxed at the place where those activities actually take place,

- **B2B and B2C restaurant and catering services**, other than those supplied on board ships, aircraft or trains during the section of a passenger transport effected within the EU, are taxed at the place where the services are physically carried out.

Reverse Charge

Reverse charge (reversal of tax liability) refers for all supplies of services and goods. Reverse charge moves the responsibility for the reporting of a VAT liability from the seller to the buyer of that good or service. That way it eliminates the obligation for seller to VAT register in the country where the supply is made.

In addition, to the general reverse charge mechanism, Croatia has introduced the local reverse charge rules, which refers to provision of goods and services between two resident VAT registered taxpayers. Provision of goods and services between two resident VAT registered taxpayers in particular refers to:

- the supply of construction work and services performed by local taxpayer to another taxpayer;

- the supply of used material, scrap, industrial waste, recyclable waste and similar goods (prescribed by VAT Regulations);

- the supply of immovable property sold by the debtor in a compulsory sale procedure;

- the transfer of allowances to emit greenhouse gases in accordance with regulations stipulating system for greenhouse gas emission allowances trading.

Domestic reverse charge mechanism obligates the customer to account for the output VAT in the same VAT return in which it may deduct input VAT.

Application of the Article 194 of the EU VAT Directive refers to:

- When non-resident taxable person supplies goods and services whose place of supply is Croatia to a person who is VAT-registered in Croatia
- Local reverse charge applies even when non-resident is registered for VAT in Croatia (non-resident will not charge local VAT on the supply; the liability is transferred to the VAT registered customer).
- It also applies to local transactions between two non-residents, i.e. when a non-resident supplier (who may or may not be VAT registered in Croatia) makes local supply to a non-resident customer who is VAT registered in Croatia. Domestic reverse charge mechanism obligates the customer to account for the output VAT in the same VAT return in which it may deduct input VAT.

7.2.6 Tax exemption

A supply of goods or services is an exempt supply if no VAT is applied to it, whether at the final stage of sale to the consumer or at some intermediate business-to-business stage. Generally, there are three types of exempt supply:

- Exemptions without the right to deduct (e.g. public-interest supplies)
- Exemptions with the right to deduct (e.g. exports and intra-EU supplies)
- Other exemptions (e.g. certain imports and intra-EU acquisitions)

Supplies that are exempt include certain activities in the public interest (such as medical and dental care, social services, education etc.) as well as most financial and insurance services and certain supplies of land and buildings. Exemptions also exist for intra-EU supplies and exports of goods outside the EU.

In most cases, if a supply is exempt from VAT, deduction of the VAT paid (input VAT) on goods and services purchased in order to make that supply is not allowed. Whereas most exempt transactions involve no right to deduct the associated input VAT ('exemptions without the right to deduct'), there are certain exempt transactions in respect of which suppliers are allowed to deduct their input VAT. These exemptions are used for instance for the exports of goods from the EU to third countries and also for intra EU supplies of goods dispatched from one EU country to a business in another.

7.2.7 Real Estate

Generally, provided that a supplier is a VAT-registered taxable person, supply of buildings or parts thereof is under certain conditions subject to VAT. The same applies for supplies of construction properties.

The following supplies of buildings and construction property made by taxable person will be subject to VAT:

- the supply of buildings or parts thereof and of land on which they stand, before the first occupation (or use) or;
- where less than 2 years have passed from the date of the first occupation (or use) to the date of the next supply and the supply of construction property.

Therefore, if the supply was made by a taxable person for supply of real estate before first use or between first use and sale less than 2 years passed, the supply is subject to VAT regardless of the tax status of buyer (natural person or VAT registered entity).

The first occupation/use is being proved by confirmation by competent authorities on registration of permanent residence or habitual residence, accounting records by which the building or parts thereof were put into use, any other document proving the use of the real estate and its parts such as: lease agreement, contract for the supply of electricity, water, and similar. Exceptionally, if the first occupation/use cannot be proved by one of these

documents and the real estate was used, the date of first supply shall be deemed as date of first occupation/use.

The supply of unfinished buildings or parts thereof and of the land on which they stand (Rohbau) is taxable by VAT.

If more than 2 years have passed from the date of the first occupation (or use) to the date of the next supply, the supplier may VAT exempt the supply according to article 40 j) and k) of the Croatian VAT Act. The supply of land, except for building land, will also be exempt. However, in this case the supplier needs to correct input VAT. The annual adjustment shall be made only in respect of 1/10 of the VAT charged on the immovable property.

If the supply is VAT exempt, it is subject to Real Estate Transfer Tax.

In addition, if more than two years passed, taxable person can opt not to apply aforementioned exemptions (i.e. to charge the VAT on the transaction), provided that customer is taxable person who has right to fully deduct input VAT on the base of supply for which opting in is applied. In that case adjustment of input VAT is not necessary. The local reverse charge according to article 75 (3) applies.

7.2.8 Croatia VAT registration and foreign taxable persons

Under Croatian VAT legislation, an enterprise carrying out deliveries of goods or services in Croatia without having a registered office, business unit, permanent residence or habitual abode in Croatia will be treated as a Croatian VAT payer - unless the Croatian service recipient is liable to self-assess and pay VAT (i.e. if the reverse charge mechanism applies). The rule also applies where a foreign enterprise acquires goods in Croatia and makes further supplies in Croatia. The foreign enterprise is required to register for VAT purposes and may appoint a tax representative authorised to carry out functions related to the calculation of tax and payment on behalf of the non-resident. Non-EU companies obliged to VAT register in Croatia must appoint a local tax representative.

Typical situations where foreign companies must register as a non-resident trader for Croatian VAT include:

- buying and selling goods locally (domestic supplies),
- importing goods,
- sales via the internet or catalogues to Croatian consumers (distance selling) if threshold is exceeded,
- organising live events with paid admission,
- intra-community supplies directly to Croatian consumers over the local reporting threshold,
- services to consumers in connection with real estate located in Croatia,
- providing accommodation and selling food and beverages to consumers.

To apply for VAT registration, businesses must send an application for registration for value added tax purposes to the Croatian VAT authorities. Businesses that are established outside of Croatia are obliged to register for VAT if they perform taxable activities in Croatia. In the case of distance sales to private individuals from Croatia, the company needs to register once the threshold of HRK270,000 is exceeded.

The tax representative must submit an application for tax representation to the tax authorities and request that the foreign enterprise be included in the register of VAT payers. The tax representative is liable for the payment of tax, penalty interest and any other penalties relating to transactions carried out in Croatia, and is jointly liable for the calculation and payment of foreign enterprise VAT.

7.2.9 Input VAT refund for foreign taxable persons

Non-resident tax persons that have no legal seat, fixed establishment or place of residence in Croatia, are entitled to a refund of Croatian VAT, provided that they have not made taxable supplies for which they are liable to account for VAT in Croatia and that there is a reciprocity agreement for Croatian business.

Following Croatia joining the EU in July 2013, EU companies may use an 8th Directive VAT recovery claim. Non-EU companies can apply for a VAT refund through the 13th VAT Directive process.

To obtain a refund of VAT in other Member States, Croatian taxable person shall address an electronic refund application via the electronic system, at the latest by 30 September of the calendar year following the refund period.

The refund period shall not be more than one calendar year or less than 3 consecutive calendar months. Refund applications may, however, relate to a period of less than 3 months, where the period represents the remainder of a calendar year.

If the refund application relates to a refund period of less than one calendar year, but not less than 3 months, the amount of VAT for which a refund is applied for may not be less than EUR400 (HRK3,100).

If the refund application relates to a refund period of a calendar year or the remainder of a calendar year, the amount of VAT may not be less than EUR50 (HRK400).

Detailed rules regulate reporting requirements of Croatian transactions for Value Added Tax purposes. These include: invoice requirements, timeliness for an invoice to be issued, invoice and credit notes corrections rules, foreign currency reporting requirements and exchange rate sources, correction of previously submitted returns and accounting records that must be maintained for VAT purposes.

Intrastat and EC Sales Lists

The Intrastat discloses details of movements of goods between Member States which take place for commercial reasons, recording the movement whenever goods enter the territory of Croatia from other Member States or leave it for other Member States.

Declaration must be filed monthly once the threshold is exceeded.

Intrastat declarations can be submitted in electronic form. The due date for submission is the 15th working day following the reference period.

7.3 Other Relevant Taxes

7.3.1 Real estate transfer tax (RETT)

In general, legal entities and physical persons from EU member state are freely able to buy real estate in Croatia. Exceptions do exist and depend on the type of real estate. Other foreign (non-EU) legal entities and physical persons need to apply for a permit from the Croatian Ministry of Justice before they can be registered as owners in the land registry.

Land and buildings are considered one supply, thus the same tax treatment applies to both land and the buildings.

Supply of real estate subject to VAT will not be regarded as real estate transfer and thus will not be taxable under real estate transfer tax. Only a transfer of real estate which is not subject to VAT is subject to RETT. Whether VAT or RETT applies depends on the status of the seller, the status of the buyer and the status of the real estate.

Real estate transfer tax of 4% of the market value is imposed on the transfer of real estate ownership. This tax is payable by purchaser (both domestic and foreign legal entities and individuals) of the real estate in Croatia. That means any transfer of ownership, including the sale, exchange giving free of charge, transfer based on inheritance, transfer in case of the liquidation of a company, and any other means of real estate transfer. Real estate includes agricultural, construction and other land, as well as residential, commercial, and other buildings.

Please note that the RETT Act also provides for certain exemptions (for example contribution of real estate into capital of companies).

7.3.2 Personal income tax

Subject of taxation

A taxpayer of personal income tax is a natural person who acquires an income. If several natural persons jointly acquire an income, each natural person separately is a taxpayer, in respect of his/her share in the jointly acquired income.

Residents and non-residents taxpayers

A resident taxpayer of personal income tax is an individual who has in Croatia:

- residence (if an individual owns/rents accommodation without interruption for at least 183 days over two consecutive calendar years; however, permanent stay in the accommodation is not necessary) or
- habitual abode (if the circumstances suggest that an individual permanently resides in that place or region for a period of at least 183 days over two consecutive calendar years).

A resident taxpayer is also an individual who does not have residence or habitual abode in Croatia but is employed with the government service and receives a salary based on this appointment.

A non-resident taxpayer is an individual who has neither residence nor habitual abode in Croatia, but sources income subject to Croatian personal income tax.

All resident taxpayers who source any type of income from abroad may be required to submit an annual personal income tax return, if such income is subject to tax in Croatia and if advance tax was not paid in Croatia and/or was paid in Croatia in an amount less than the amount which would be calculated pursuant to the provisions of the personal income tax law.

Non-resident taxpayers may be required to submit an annual personal income tax return. Only Croatian sourced income of non-residents is subject to personal income tax in Croatia.

Object of taxation

There are several sources of income in Croatia:

- Income from employment,
- Income from independent personal activities (self-employment),
- Income from property and property rights,
- Income from capital,
- Income from insurance,
- Other income.

Tax calculation

The net result of certain income category is calculated as gross income less deductible expenses. The net results of the certain income categories of an individual (not all) are aggregated generally on the annual basis and the personal allowances are deducted from the aggregate amount.

In Croatia, there are two types of PIT calculation: annual and final income. The difference between annual and final income is that the final income does not enter into the process of annual assessment of tax liability and the tax paid on the final income is deemed as finally paid tax (i.e. it cannot be subject to additional taxation regardless of the amount of other types of income taxable at the annual level). On the other hand, the annual income is entered into the process of annual assessment of tax liability so the tax prepayments are not necessarily the final tax to be paid on that income in the tax year in question.

Final income is income that has its source in the revenue from property and property rights, capital and insurance and other incomes which are not deemed final. Income can also be assessed at flat-rate amount; the thusly determined income is also deemed as final.

Employment income, income from capital, self-employment income, and other income which is not considered final, are subject to a final withholding tax under certain conditions.

Income from employment

The following receipts are considered income from employment (salary):

1. all receipts which the employer pays out in cash or in kind or gives to the worker based on employment and according to regulations regulating employment, and these are:
2. entrepreneurial salary included in the expenses when determining profit tax;
3. receipts (salary) of natural persons posted to work in Croatia upon the order of a foreign employer to domestic companies in order to work in those companies;
4. receipts (salary) of the members of representative and executive bodies of the government and local and regional self-government units which are paid out for work in those bodies and units and/or;
5. salary compensations to persons providing care and assistance to Croatian military invalids of the Homeland War of Group I, according to a special provision;
6. pensions.

Receipts in kind shall include the use of buildings, means of transport, favorable interest when approving loans, awarding or optionally purchasing own shares at favorable terms and other benefits which employers and payers of the receipt, i.e. salary, give to their workers and natural persons. A receipt based on more favorable interest shall include a difference between the lower contracted rate and the interest rate of 3% per year, except for interest on loans which are provided or subsidised from the budget, but not to the management employees.

Business and professional income

The category “self-employment income” includes income from a business, a profession (e.g. lawyer, architect), agriculture and forestry.

Taxable income from self-employment is calculated as a difference between gross receipts and expenditures incurred during the tax period according to the business books. Only expenses directly linked to the earning of income from a business are deductible.

An individual entrepreneur engaged in a business may opt to be subject to profits tax (corporate income tax), instead of income tax, if in the preceding year:

- his turnover was at least HRK3 million; or
- two out of following three conditions were met: his net income was at least HRK400,000; he employed on average more than 15 employees; or the value of his depreciable assets exceeded HRK2 million.

Income earned by agents, journalists, artists and sportsmen falls under the category “other income”, which is subject to a final withholding tax. In general, no deductions are allowed in calculating the taxable base, except for social security contributions paid.

Taxpayers earning other income may, however, opt to be taxed under the rules applicable to business income.

Individuals who are owners, tenants or lessees of farmland or forestry and who pay value added tax are subject to income tax. The tax is paid in the same manner as tax on income from businesses.

Income from property and property rights

The difference between receipts accruing from/on leases, rentals, renting of flats, rooms and beds to travelers and tourists and organising camps, receipts from temporally limited cession of copyright, industrial property rights and other property rights in accordance with special regulations, receipts from

alienating real estate and property rights and the expenses that the taxpayer has incurred in a taxation period in connection with these receipts shall be deemed income from property and property rights.

In the case of income from property on the basis of the rental or lease of movable and immovable property, expenses in the amount of 30% of the realised rental or lease are allowed.

The taxpayer who realises income from renting of flats, rooms and beds to travelers and tourists and organising camps, tax on income based on the performance of this activity is determined in a flat-rate amount.

Income from capital

Income from interest, withdrawals of assets and the utilisation of services at the expense of current-period profits, capital gains, shares in profits realised by award of or optional purchase of own shares, dividends and shares in profit according to share in capital, which were realised in a taxation period are considered income from capital.

If dividends and profit shares are paid by a resident company, they are subject to a withholding tax of 12%. Dividends earned before 1 January 2001 and in the period of 1 January 2005 to 28 February 2012 are exempt from tax.

In general, no deductions are allowed for the calculation of the taxable base of investment income. Taxable types of interest and royalties are taxed by way of final withholding.

Capital gains

Income from capital based on capital gains is the difference between the contracted sales price, i.e. receipts determined according to the market value of the financial assets which is being alienated, and the purchase price. Such income includes receipts from the alienation of financial instruments and structured products. The capital gains tax at a rate of 12% plus city surcharge applies to gains derived from financial instruments. However, such gains are not taxable if the financial instruments are held for more than 3 years.

Capital gains from the sale of immovable property and proprietary rights are taxed by way of final withholding. No personal allowances are granted at the time of withholding.

Income from insurance

Paid and tax-deductible premiums of life insurance with the savings and voluntary pension insurance character shall be deemed income from insurance, and in cases of purchase of life insurance and voluntary pension insurance policies or cessation of insurance, the amount calculated for payment based on an insurance contract shall be deemed income if it is less than the total paid and tax-deductible insurance premiums.

Tax-exempt income

The following payments/reimbursements are not included in taxable income (whether paid to a local employee or an expatriate assigned to a Croatian entity but only if the expatriate is sent on a business trip to perform services on behalf of the Croatian entity to which the expatriate has been assigned):

- the reimbursement of accommodation expenses on a business trip, up to the amount of actual expenses
- the reimbursement of travel expenses on a business trip, up to the amount of actual expenses
- the reimbursement of travel expenses to and from work by local public transport, up to the amount of actual expenses according to the price of single or monthly tickets
- the reimbursement of travel expenses to and from work by inter-city public transport, up to the amount of actual expenses according to the price of monthly or single tickets
- the daily allowances for business trips within Croatia, up to HRK170 (in addition to actual travel and accommodation costs)
- the daily allowances for business trips abroad, up to specified amounts (varies by country; in addition to actual travel and accommodation costs)

- the allowances for the use of a private car for business purposes, up to HRK2 per kilometer driven, etc.

The following payments/reimbursements are not included in taxable income if paid to a local employee:

- annual awards cumulatively to HRK2,500 (usually paid for Christmas, during holidays, and so on)
- jubilee payments from HRK1,500 to HRK5,000 depending on the years of service
- other payments up to prescribed amounts
- education provided by the company and connected with the company
- specific work outfits labelled with the name or logo of the employer (or income payer)
- compulsory health checks and general health checks, if provided to all employees
- Croatian compulsory social security contributions provided by the employer.

In addition, income tax is not paid on the following items:

- interest on positive balance on giro accounts, current accounts, and foreign currency accounts up to 0.5% per annum;
- interest on investment bonds;
- gains realised from the sale of a financial property (investment and securities), if not considered the individual's business activity;
- The dividends and profit shares are used to increase the share capital of the company;
- if certain conditions are met, the foreignisation of real estate or property rights; and

- receipts from non-refundable EU funds and program for the purpose of education and professional training, up to the prescribed amounts.

A range of payments, benefits, and allowances are not taxable, up to prescribed amounts, when paid to individuals employed by a Croatian legal entity and up to a certain scale when paid to expatriates.

Tax rates

Croatia has progressive tax rates that are applicable to the taxable base in the process of annual assessment of tax liability. Taxable base is calculated by applying prescribed tax deductions and tax allowances (i.e. non-taxable parts of income) to the total amount of annual income.

If the personal income tax is below HRK210,000, the tax rate is 24%. The tax rate of 36% is applied if the personal income tax is higher than HRK210,000 on the annual basis.

For employment income, self-employment income and other income the individual is entitled to a basic annual personal allowance (non-taxable part of income) in the amount of HRK45,600 increased for allowances for dependent family members.

Capital income, insurance income and property and property rights income are income at flat rates of tax. The flat tax rates are prescribed as 12%, 24% and 36% depending of the type of income.

Requirements for tax returns in Croatia

The annual personal income tax return is due by the end of February following the year for which tax is being assessed and is to be submitted only in exceptional cases. Income tax assessed must be paid within 15 days from the day the taxpayer is served with the demand for payment.

Individuals receiving income directly from abroad should within eight days from the receipt of the income report the income, calculate and pay taxes levied on the income. Reporting to the tax authorities is made via submission

of a JOPPD form. An annual income summary form, the IP form, must be issued to the taxpayer by 31 January of the following year. An annual personal income tax return, if one is required to be submitted, is due end of February of the following year.

Obligation to file an annual tax return exists if:

- a taxpayer realises income from self-employment activities
- international shipping crew members, Croatian residents, who realise employment income, and
- the tax administration requests the taxpayer to pay PIT subsequently.

The tax return shows the difference between the annual tax liability and the amount of tax prepayments made during the tax year. Depending on this difference, the taxpayer will be either entitled to a tax refund or will be required to make tax due payment.

The tax burden on income types that are included in the annual tax return can be higher compared to the tax burden indicated at each income category (e.g. other income that falls into the category of annual income).

As of tax year 2016 onwards, a special procedure for annual assessment of PIT and surtax liability is applicable for taxpayers that are not legally obligated to prepare and file the annual tax return. Instead of filling the annual tax return, the tax administration will carry out a special procedure for annual assessment of PIT and surtax liability.

Income that is included into the category of final income is not included in the annual tax return nor does it enter the process of annual assessment of tax liability. Consequently, tax paid on the final income is deemed finally-paid tax (i.e. it cannot be subject to additional taxation regardless of the amount of other types of income taxable at the annual level).

Personal allowances

A basic personal allowance of HRK3,800 per month is granted for resident taxpayers.

Additional monthly personal allowances for residents include:

- HRK1,750 for a dependent spouse or other close family member;
- HRK1,750 for the first child, HRK2,500 for the second child, HRK3,500 for the third child, HRK4,750 for the fourth child, and up to HRK14,750 for the ninth child;
- HRK1,000 for the taxpayer, each dependent immediate family member and each child if they are disabled persons; and
- HRK3,750 for the taxpayer, each dependent immediate family member and each child if these persons' disability degree is 100% and/or if they are entitled to care and assistance provided by other persons.

Surtax

Cities and municipalities in Croatia may levy an additional tax, the so-called surtax. The decision on the amount of the surtax rate lies with the city or municipality officials and is levied according to the individual's place of residence or habitual abode in Croatia. For taxpayers who live in places where surtax is levied, their income is subject to the surtax.

Surtax rates in Croatia range from 0% to 18% (the highest surtax rate is for Zagreb, the capital of Croatia). The base on which surtax is calculated is the amount of PIT liability.

8. Employment

8.1 Employment Procedures

8.1.1 General employment principles

Main legislative framework for labour relations in Croatia is provided by Labour Act. Provisions of the Act provide safeguards both for the employer and the employee.

The labour relations, rights and obligations of the employers and employees, can also be determined by a collective agreement contracted between one or more employers or an association of employers on the one part, and one or more labour unions on the other part. These agreements can also contain regulations for employment, the procedure for the termination of labour relations etc.

Employees, workers' council, trade unions and employers can agree on working conditions that are more favourable for the employees than those set by law. Employer, employers' associations and trade unions can agree in a collective agreement on less favourable working conditions than those prescribed in the Labour Act, but only if the law expressly provides for that.

If any of the rights deriving from the employment is regulated differently in the employment contract, work regulations proscribed by the employer, agreements between the workers' council and the employer, collective agreement or law, the right that is most beneficial for the employee will be applied, unless the Labour Act or any other act provides otherwise.

Additionally, every employer who employs more than twenty employees is obligated to adopt and publish work regulations which govern salaries, organisation of work, procedures and measures to protect the dignity of workers, safeguards against discrimination and other issues important to employees employed by the employer if those matters are not covered by the collective agreement.

The Labour Act in Croatia governs the following issues:

- labour relations – a legal basis is established through a work contract, the form and content of the contract are defined by the Act;
- working hours – 40 hours per week; vacations and other leave – at least 4 weeks of vacation;
- forms of protection in case of maternity leave; forms of protection in case of temporary or permanent worker disability;
- wages – the employer cannot pay less than defined by a collective agreement, forms of protection of employees in case of bankruptcy are defined, etc.;
- termination of the work contract – the procedure for termination, reasons for a regular and irregular notice of dismissal, procedure in case of redundancy;
- employee council – employees' rights to participate in the decision-making process concerning their economic and social rights and interests through representatives on the employee council.

8.1.2 Content of the employment contract

Employment relationship is based on the employment contract of indefinite duration. An employment contract may exceptionally be concluded for a definite time but only for those jobs where their termination is determined by objective reasons justified by deadline, performance of a specific task or occurrence of a specific event.

Labour Act limits the duration of the employment contract for a definite time to no longer than three years. Breaks between employments that last less than two months shall not be considered as an interruption of a three years limit.

Persons younger than 15 or persons who are 15 years of age or older, but below 18, and who are still attending compulsory primary education, cannot enter into an employment contract.

Please note that in Croatia, when agreeing with an employee on salary terms, it is common to negotiate the monthly net salary while the gross salary (so called Bruto 1) is stated in the employment contract.

8.1.3 Trial work

When concluding an employment contract, a trial work period may be agreed upon. A trial work period may not exceed six months. If a trial work period is agreed upon, the termination period should last for at least seven days. Not meeting expectations of the trial work is an especially justified reason for the cancellation of the employment contract.

8.1.4 Working hours

There are two basic categories:

- full time employment, which cannot be longer than forty hours a week;
- part time employment, which includes all types of employment shorter than full time employment.

Full-time work is still limited to 40 working hours per week, but the Act introduced an exception, which allows full-time workers to conclude an additional employment contract for a maximum of eight working hours per week, up to a total of 180 working hours per year, provided that all the workers' employers agree. The workweek may not exceed 6 days.

In case of force majeure, the extraordinary increase in the volume of work and in other similar cases of an emergency, the employee has to work at the employer's request longer than full-or part-time (overtime), but up to eight hours a week. Overtime of an individual worker must not exceed 180 hours a year.

If overtime of a certain employee continues for more than four consecutive weeks or more than twelve weeks during a calendar year, or if an overtime of employer's employees exceeds ten percent of the total working hours in a particular month, labour inspector must be notified within eight days from the occurrence of any of the above circumstances.

According to the latest amendments to Labour Act (from 2017), the extension of working hours to a maximum of 50 hours per week is allowed or, if allowed by collective agreement, to 60 hours. Generally, an employee cannot work more than 180 hours of overtime a year unless stipulated otherwise in the collective agreement, although even then the maximum is 250 hours. The employer must submit a written request for overtime work, or confirm an oral request with a written one. However, the employee is still obliged to work overtime if asked to do so by their employer.

The Croatian Labour Act also proscribed the concept of an unequal working hours schedule, which gives the employer the right to modify an employee's working hours according to current work needs. An irregular schedule must be in place for at least a month and no longer than a year, and the maximum weekly working time including overtime remains 48 hours.

Where the nature of work so requires, full-time or part-time working hours may be rescheduled so that in the course of time period, whose duration may not exceed 12 successive months, there may be a period of time with working hours that are longer and another period of time with working hours that are shorter than full-time or part-time working hours, provided that average working hours in the course of rescheduling may not exceed full-time or part-time working hours. Where rescheduling of working hours is not provided for in a collective agreement or an agreement concluded between the works council and the employer, the employer shall establish a plan of rescheduled working hours with an indication of jobs and number of employees included in such rescheduled working hours and submit such plan with rescheduled working hours to a labour inspector. Rescheduled working hours are not considered to be overtime work. If working hours are rescheduled, they cannot, including overtime work, exceed 48 hours a week during the period when they last longer than full-time or part-time working hours.

For any work of 6 or more hours daily, a break of at least 30 minutes is obligatory and must be included in the working time.

For jobs on which, even with the protection measures it is not possible to protect the employee from harmful effects, working hours are shortened in

proportion to the harmful effects of the job on health and working capacity of the employee as provided by law.

Between two consecutive working days, the employee has the right to a day break off at least 12 consecutive hours. The Act also defines the weekly break lasting at least 24 hours and the yearly vacation break lasting at least 4 weeks. It also defines the right to a paid leave for important personal reasons, particularly in relation to occasions such as marriage, childbirth, serious illness or death in the immediate family. Upon the employee's request, the employer can grant an unpaid leave during which all the rights and obligations from the employment contract are not in force.

Longer annual leave may be determined by a collective agreement, work regulation or by a labour contract. Public holidays are not included in the duration of the annual leave.

8.1.5 Termination of employment contracts

The Labour Act sets out provisions for the termination of employment contracts. In addition to already valid methods for terminating employment contracts, the law now allows a contract to be terminated on the following grounds:

- the death of the employer (if an individual person);
- the legal cessation of a small business;
- the deregistration of a sole trader (in accordance with specific provisions).

The Labour Act stipulates the written form of the agreement of the contract's termination agreement and that of the notice of dismissal. The aim is to balance the protection of workers against dismissal with the needs of employers to take on the workers they really want.

The Labour Act sets out grounds for normal dismissal subject to a mandatory period of notice.

To facilitate a company restructuring where necessary, an employer is allowed to terminate an employment contract on economic or personal grounds, irrespective of whether it would be reasonable for the worker to be redeployed or retrained.

Where a worker is given a normal period of a termination of ending employment for personal or business reasons, the employer can cancel the employment contract without being obliged to train the employee for another job. Furthermore, the employer is not obliged to employ the worker even if they have another position available.

During pregnancy, the exercise of maternity, parental or adoptive parent leave, half-time work, work with shortened working hours for the purpose of intensified child care, leave of a pregnant woman or a breastfeeding mother, leave or shortened working hours for the purpose of caring for or nursing a child with severe developmental problems or during a period of fifteen days after the cessation of pregnancy or the cessation of the exercise of these rights, the employer may not dismiss from work a pregnant woman or a person exercising one of the rights mentioned.

8.2 Social Security Contributions

Social security in Croatia is an organised protection for vulnerable groups within the population, such as the sick, elderly, those unfit for work, the unemployed, the socially endangered, the families with children and it is implemented by the state through contributions made on the principle of solidarity.

Social security contribution includes contributions for health and pension insurance, unemployment insurance and family benefits, social benefits and child benefits. Social security contributions are payable in respect of realised income or in respect of an artificial basis (i.e. on a lump-sum basis), depending on the status the individual has in the social security system as well as other relevant circumstances. In the case of dependently employed individuals, social security charges are borne by the employee and employer.

Employees bear the cost of pension insurance (20%) which is deducted from their agreed gross salary (so called Bruto 1) and the employer bears the cost of social security contributions on the agreed gross salary (Bruto 1) at the rate of 17.2% for the following social security benefits:

- Health insurance: 15%.
- Health insurance for health protection while at work: 0.5%.
- Unemployment insurance: 1.7%.

With the goal of protection and employment of disabled persons, employers have certain additional obligations with respect to disabled individuals. Apart from certain exceptions, employers employing 20 and more employees are obligated to employ a prescribed number of disabled individuals. The number is calculated as 3% of the total number of employees.

Employers that do not comply with prescribed requirements are obligated to pay a monthly fee amounting to 30% of minimal salary (minimum salary for 2018 amounts to HRK3,440) for each disabled individual that employer was due to employ.

8.2.1 Pension insurance

Pension reform was initiated in 1998, and in 2002, the system of three pension pillars was created: the first pillar is the generational solidarity system, the second pillar is compulsory individual pension insurance, and the third pillar is voluntary pension insurance. The last two pillars represent individual capitalised savings by the insured person.

Competent authority for the pension insurance system is the Croatian Institute for Pension Insurance (HZMO).

Back into 2002, all individuals over 50 years old, at that time, remained in pillar 1 which means that they needed to pay contributions of 20% of the gross salary.

Employee's social security contributions are pension contributions levied at the rate of 20% (I. Pillar payments: 20% or 15% if individual is also subject to II. Pillar payments; II. Pillar payments: 5% if applicable). The basis for their payment is gross salary, which is capped at the following values for 2018:

- HRK48,120 monthly cap (applicable to both I. and II. Pillar payments in case of salary).
- HRK577,400 annual cap (applicable to I. Pillar payments irrespective of whether the payment is salary or other receipts).

8.2.2 Unemployment insurance

All Croatian employees with at least 9 months of employment in the past 24 months are entitled to unemployment benefits if they are between 15 and 65 years old. They must register with the Croatian Employment Service within the first 30 days of date of unemployment.

Depending on the duration of the employment, the benefit is to be paid for 90 to 450 days, with an additional lump sum of 2, 4, or 6 monthly unemployment benefits. Older employees are exempt for the rule if they have spent 32 years working and have less than 5 years left until they are suitable for old-age pension. They are entitled to unemployment benefit until they gain new employment or retire.

Benefits are denied to any person whose employment was brought to an end voluntarily or due to misconduct.

Benefits depend on the worker's average wage received over the previous three months before the contract was terminated and range from 976 kuna to 1200 kuna.

The basis for payment of employer’s social security contributions is gross salary, which is not capped.

8.2.3 Maternity benefits

Employed and self-employed pregnant women are entitled to maternity leave 28 days prior to the expected date of birth (in case of complications, it may be taken 45 days prior to the expected date of birth) up to 70 days after the birth of the child. This is mandatory leave used by the mother, and in special circumstances it may also be used by the father.

After expiry of the mandatory maternity leave, the employed or self-employed mother is entitled to additional maternity leave until baby turns 6 months old and which she can transfer fully or partially by written statement to the father.

Employed or self-employed parent is entitled to a parental leave up to 8 or 30 months, depending on number of children borne and the way how this leave is used. The parent is entitled to use 8 months for the first and second child and 30 months for twins as well as for the third and every subsequent child. The right to parental leave is normally used by both parents, each for 4 or 15 months. If the parental leave is used by only one parent, and according to their agreement, it is used for six months for the first and second child, 30 months for the twins, the third and each subsequent child. The minimum monthly benefit prescribed by the law is 2,328.2 kuna.

8.2.4 Sick leave

Entitlement to sick leave is confirmed by chosen primary healthcare doctor who assesses the beginning and duration of the temporary incapacity for work. The employee is obliged to inform the employer about the sick leave and supply him with a certificate of temporary incapacity for work and expected duration within 3 days at the latest. Sick leave as assessed by a chosen doctor may only last for the period prescribed by them.

Employees are entitled to income replacement benefit for the time they are on sick leave. The first 42 days of sickness, or 7 days for a worker with a disability are paid by the employer. The amount of the payment depends on the collective agreement or employment contract but may not be less than 70% of your average wage in the 6 months preceding the sick leave.

From the 43rd day of sick leave, or the eighth day for a disabled employee, income-replacement benefit is calculated and paid out by the employer and reclaimed from the HZZO (Croatian Health Insurance Fund). In this case, the minimum rate may not be less than HRK831.50 and the maximum rate is limited to HRK4,257.28.

The entitlement to income-replacement benefit is valid until the recovery, but as a rule no longer than an uninterrupted period of 18 months for the same diagnosis. After this, the benefit is reduced to half of this amount. This reduction does not apply to certain severe illnesses.

8.2.5 Child benefits

Child benefits can be claimed if the total income, earned in the previous calendar year, does not exceed 70% of the state budget base prescribed for that year, i.e. as of July 2018 if the average income per member of the household does not exceed HRK2,328.2 a month.

Child benefit can be claimed by a parent (married or unmarried), adoptive parent, caregiver, stepfather, stepmother, grandmother, grandfather, foster parent or grown child without both parents in full-time education.

Prior to claiming the person must have been permanently residing in Croatia for at least 3 years. Based on the monthly income per family member, there are three thresholds according to which the amount of child benefit is determined.

For a child with one parent, the amount is increased by 15%. For a child without both parents and children with impaired health, the amount is increased by 25%.

For a child with severely impaired health, child benefit is paid regardless of family income. It is set at 25% of the state budget base. In addition to the set amount of child benefit, the person claiming can also obtain a birth grant for the third and every subsequent child for whom child benefit is paid.

In addition, parents are entitled to one-time cash assistance for a new-born. The parent must have Croatian citizenship and have resided in Croatia for at least 12 uninterrupted months on the date of birth of the child. A foreign parent must have at least 12 months of permanent residence in Croatia.

To receive one-time cash assistance for a new-born, a parent must have health insurance under the regulations on mandatory health insurance. If the parent is outside of the labour system, the cash assistance entitlement remains provided the parent is a Croatian national with a permanent residence or a foreign national who has resided in Croatia for at least 5 uninterrupted years. The one-time cash assistance amounts to 70% of the state budget base.

8.3 Health and Safety Issues

Compulsory primary health insurance is administered by the Croatian Institute for Health Insurance (HZZO) and covers the costs of health services prescribed by law. These include services in the case of workplace injury and profession-related illness, and compensation for loss of pay during sick leave, maternity or paternity leave, and transport costs linked to the use of health services. Services which are not covered by basic health insurance are borne by the individual or are covered by additional health insurance.

Health care contributions in Croatia are mandatory for all employed citizens, i.e. their employers and is generally paid at the rate of 20% of the gross salary. Self-employed workers in Croatia are also obliged to pay health care contributions. Croatian citizens who belong to a particularly vulnerable category are exempt from paying health care contributions; retired people and persons with low income are insured and have access to health care facilities – contractual partners – of the Croatian Health Insurance Fund (CHIF).

Croatian citizens have the option to obtain health services within private health care providers which are not CHIF contracted partners, either through direct payment or through supplemental insurance which is covering the payment.

Croatian citizens are required to participate in health care expenditures, except for certain categories of insured persons (e.g. children under age of 18) or insured persons suffering from certain diseases, when health care services are being rendered due to complications caused by those diseases (e.g. malignant diseases or chronic mental illnesses). Some health care services, such as plastic surgery, insured persons are obliged to pay on their own, i.e. the cost is not covered by mandatory health insurance.

Although in the middle of the reform, the Croatian health care system is rendering health care services in accordance with European standards. Access to health care outside major cities is fairly reduced, but this mainly concerns outpatient-conciliar health care, while primary health care and emergency medicine are available in all parts of the state.

Foreign citizens may procure a health insurance policy from the CHIF in the following way:

- Upon arrival in Croatia, you need to register at a police station, where you receive a registration number;
- The CHIF office will then register you on temporary evidence and issue a confirmation, which entitles you to medical insurance after the residence regulation;
- With the temporary confirmation from the CHIF, you need to return to the police station, where your temporary residence will be approved and a permit issued;
- After bringing a copy of the residence confirmation to the CHIF, you will be fully insured.

The occupational health and safety at workplace is regulated by Occupational health and safety Act. Generally, the employer is responsible for the organisation and implementation of health and safety measures in all areas of work. Collective agreements can be part of the basis of regulation for health and safety, alongside legislation and regulations. Occupational health and safety as a systematically organised activity is an integral part of performing a working process which the employer achieves by applying basic, special and

recognised occupational health and safety rules in accordance with the general principles of prevention. If risks to health and safety of employees cannot be eliminated or can only be partially eliminated by applying basic occupational health and safety rules, specific occupational health and safety rules related to the employees, to the way of conducting work and to work processes shall additionally be applied.

The employer is obliged to organise and implement occupational health and safety, taking into account risk prevention as well as informing, training, organisation and resources. The employer may delegate the implementation of occupational health and safety in writing to his authorised officer within his scope of work.

The employer employing 50 or more employees is obliged to set up an occupational health and safety committee as its advisory body for the improvement of occupational health and safety. Employees of an employer, may elect an employees' commissioner for occupational health and safety from among themselves. Where 20 or less employees work for an employer, a commissioner for occupational health and safety shall be elected in a direct and public vote by employees attending a meeting convened by the employer in accordance with labour law. Where more than 20 employees work for an employer, a commissioner for occupational health and safety shall be elected in accordance with labour law regulating the election of a works council.

8.4 Minimum Wages

The government publishes the Regulation on the amount of minimum wage once a year for a specific period, i.e. a calendar year and no worker in Croatia can be paid less than this mandatory minimum rate of pay. Croatia's Minimum Wage is the lowest amount a worker can be legally paid for his work for a full-time job. For part-time job, the minimum wage is determined as proportion to the minimum wage for a full-time job and working hours for which an employee is registered with responsible authorities. According to the Act on minimum wage, employers in Croatia who fail to pay the minimum wage within prescribed deadlines may be subject to misdemeanor cash penalties in the amount from HRK60,000 up to HRK100,000 for employer, legal entity or

HRK7,000 up to HRK10,000 for employer, natural person or responsible person within legal entity.

In 2018, the national minimum gross wage in Croatia is fixed at HRK3,439.8, that is HRK41,277.6 per year, taking into account 12 payments per year. The national minimum net wage in Croatia is fixed at HRK2,751.84, that is HRK33,022.08 per year, taking into account 12 payments per year.

9. Visas and Immigration Issues

9.1 Entry Procedures and Visa Requirements

Visa is an approval for:

- transit through or intended stay in the territory of Croatia for a duration of no more than 90 days in any 180-day period;
- transit through the international transit area of Croatian airports.

It is issued for one, two or more entries for transit, tourist, business, private or other purposes.

The validity period of a visa depends on the circumstances of traveling and cannot exceed five years.

The possession of a visa is not a guarantee of entry into Croatia. Other legal requirements must also be met. Foreigners may not work in the territory of Croatia based on a visa alone.

Visa application shall be submitted no sooner than three months prior to the date of the intended trip.

Each visa applicant shall enclose the following documents with the application:

- valid travel document whereby the validity period of the travel document should exceed that of the visa by three months;
- a 35x45mm^2 colour photo;
- evidence of travel health insurance;
- evidence of paid visa fee;
- documents that prove: the purpose of the stay in Croatia, ensured accommodation, means of subsistence to cover the stay in Croatia and the return to the country of origin or to a third country, means of transport

and the intention to return to the applicant's country of origin or to a third country.

Visa is not required for bearers of valid travel documents issued by the Government of the United Kingdom of Great Britain and Northern Ireland:

- British (overseas) citizens;
- British overseas nationals that have the right of residence in the UK and
- British subjects who have the right of residence in the United Kingdom.

This also applies to holders of valid passports issued in the Hong Kong Special Administrative Region of the People's Republic of China and Macao Special Administrative Region of the People's Republic of China.

Visa requirement does not apply to holders of passports issued in Taiwan, if the personal ID number is entered in the passport.

All third-country nationals who are holders of valid Schengen documents, as well as national visas and residence permits of Bulgaria, Cyprus, and Romania do not require an additional (Croatian) visa for Croatia.

Third-country nationals who are holders of:

- uniform visa (C) for two or multiple entries, valid for all Schengen Area Member States;
- visa with limited territorial validity (LTV visa), for two or multiple entries, issued to the holder of a travel document that is not recognised by one or more, but not all of the Schengen Area Member States, and which is valid for the territory of the Member States recognising the travel document;
- long-stay visa (D) for stays exceeding three months, issued by one of the Schengen Area Member State;
- residence permit issued by one of the Schengen Area Member State;
- national visas for two or multiple entries and residence permits of Bulgaria, listed in Annex I of the Decision No. 565/2014/EU;

- national visas for two or multiple entries and residence permits of Cyprus, listed in Annex III of the Decision No. 565/2014/EU;
- national visas for two or multiple entries and residence permits of Romania, listed in Annex IV of the Decision No. 565/2014/EU;

do not require a visa for transit or intended stays in the territory of Croatia not exceeding 90 days in any 180-day period.

Nationals of Kosovo, who are holders of Schengen visas with limited territorial validity (LTV visas), valid for all Schengen countries except for Greece and Spain, do not require additional Croatian visa for transit through or intended stays in the territory of Croatia not exceeding 90 days in any 180-day period.

The period of validity of the above-mentioned Schengen, Bulgarian, Cypriot, and Romanian documents must cover the duration of the transit or stay.

This facilitated entry of third-country nationals is in force until Croatia fully applies the provisions of the Schengen acquis.

Family members of citizens of EU, EEA or Switzerland, who are nationals of third countries, are entitled to free movement in accordance with Directive 2004/38/EC of 29 April 2004, which Croatia transferred into her national legislation.

A family member of a citizen of EU/EEA/Switzerland can travel without a visa to Croatia if he/she has a valid passport and a valid identification card called "Residence card of a family member of a Union citizen", and if he/she travels with or joins the family member who is citizen of EU/EEA/Switzerland.

If a family member of a citizen of EU/EEA/Switzerland does not have such card, he/she needs a Croatian visa.

Family members of citizens of EU/EEA/Switzerland who require a visa are given a priority appointment for submission of visa applications directly to the Embassy.

Applications are processed in an expedited procedure and without charging visa fees, with presentation of the minimum documentation: a visa application form, a valid passport, a photo and a proof of family relationship with a citizen of EU/EEA/Switzerland.

Croatia's visa policy is fully harmonised with that of the EU even before the accession (1 July 2013). This means that from that date onwards the classic visa regime will apply for the citizens of Russia and Turkey as well as citizens of all those countries that need visa for entering the EU member countries.

9.2 Stay of Foreigners

Nationals of third countries are foreigners who are not nationals of European Economic Area (EEA) members. Regulating their stay or work depends on whether they have permanent residence in an EEA member, whether they are family members of a national of an EEA member state, the Swiss Confederation, Croatian national, or do not fall under any of the abovementioned categories. The Foreigners Act lays down the requirements for the entry, stay and work of foreigners in Croatia.

Foreigners may stay in Croatia:

- up to 90 days in any 180-day period - short-term stay
- up to a year- temporary stay
- indefinitely- permanent stay

A short-term stay refers to the stay of foreigners of up to 90 days in any 180-day period, with or without a visa. Foreigners who are not required to have a visa to enter Croatia may stay in Croatia for a maximum period of 90 days in any 180-day period.

A temporary stay may be granted to third-country nationals for the following purposes: family reunification, work, secondary school education and university studies, scientific research, humanitarian reasons, work of posted workers and for other purposes.

Foreigners submit a temporary stay application in person a competent diplomatic mission/consular post of Croatia.

Foreigners who are not required to have a visa to enter Croatia may submit their temporary stay application at a police administration/police station according to their intended place of stay, employer's registered office (seat) or their place of work.

Foreigners will be granted temporary stay if they: prove the purpose of their temporary stay, hold a valid travel document, have funds to support themselves, have health insurance, are not prohibited entry and stay and are not considered to be a threat to public order, national security or public health.

If the application for temporary stay is approved, a foreigner is granted a temporary stay permit in a form of a biometric residence permit. A biometric residence permit is issued for the term of validity of up to one year. The term of validity of a travel document shall be at least 3 months longer than the time period for which the biometric residence permit has been issued.

A temporary stay for other purposes may be granted for a maximum period of one year. Foreigners may submit a new application for a temporary stay for other purposes six months after the expiry of the temporary stay that was granted to them for other purposes.

If the application is submitted at a diplomatic mission/consular post, foreigners shall be notified that a decision relating to the application has been issued, instructing them to appear at the competent police administration/police station in order to provide biometric data for the issuance of a residence permit.

Foreigners who have been granted temporary stay have to report their place of stay to a competent police administration/police station not later than 3 days upon entering Croatia.

An application for a temporary stay renewal is submitted at a police administration/police station not later than 60 days before the existing

temporary stay expires. If a foreigner fails to apply for a temporary stay renewal in due time, he/she will be charged a fine.

9.3 Work and Stay Permit

Nationals of EEA member states or the Swiss Confederation and their family members, or family members of Croatian nationals intending to stay in Croatia longer than three months have to register temporary residence no later than eight days before the end of the three-month stay at the competent police administration or police station depending on the address. They do not need a work and stay permit, except for Austrian citizens (exception based on reciprocity rule).

Certificate of registered temporary residence is issued in the form of a biometric residence permit valid for up to five years.

Foreigners may work in Croatia pursuant to a stay and work permit or a work registration certificate, unless provided for otherwise by the relevant legislation.

A stay and work permit is a single permit which allows foreigners to temporarily stay and work in Croatia. A stay and work permit is issued on the basis of an annual quota and outside the annual quota.

The decision on the annual quota of permits is adopted by the Government of Croatia and it is published in the Croatian Official Gazette.

The stay and work permit is issued by the competent police authority/station.

The conditions for granting temporary or permanent stay to foreigners are regulated by the Foreigners Act and accompanying bylaws.

A stay and work permit based on the annual quota shall be granted to foreigners who meet the prerequisites for a temporary stay permit and who provide the following:

- a contract of employment or a written confirmation that a contract of employment has been concluded or any other relevant contract,
- proof of educational background and qualifications,
- proof of the registration of a company, branch office, representative office, trade, association or institution in Croatia.
- proof of health insurance,
- proof of sufficient funds to support oneself,

Permits to stay and work outside the annual quota may be issued to foreigners if they meet the criteria for temporary stay and if they provide the following:

- a contract of employment, or a written confirmation that a contract of employment has been concluded, or any other relevant contract,
- proof of educational background and qualifications,
- proof of the registration of a company, branch office, representative office, trade, association or institution in Croatia,
- explanation on the justifiability of employment of a foreigner that contains information on the foreigner's professional knowledge, qualifications and work experience, and the reasons why this position cannot be assigned to a Croatian national on a labour market.

A stay and work permit may be issued to foreigners referred who are to perform key activities in a company, branch office or representative office, except for citizens of the EU, if they meet the criteria referred to above and if:

- the value of the company's share capital, i.e. assets of a limited partnership or a general partnership exceed the amount of HRK100,000,
- at least 3 Croatian nationals are employed in the company, branch office or representative office of a foreign company on jobs other than the procurator, member of the management board or supervisory board,

- the foreigner's gross salary is at least in the amount of an average gross salary paid in Croatia in the previous year, according to the official data published by the competent statistical agency.

Foreigners who are to be self-employed in their own company or in a company in which they hold a share of more than 51%, or in their own trade, except for citizens of the EU may be issued a stay and work permit if they meet the criteria and if:

- they have invested at least HRK200,000 in the establishment of a company or trade,
- at least 3 Croatian nationals are employed,
- the foreigner's gross salary is at least in the amount of an average gross salary paid in Croatia in the previous year,
- the company or trade does not do business at a loss,
- they provide proof of having settled the tax obligations and contributions in Croatia.

Foreigners – providers of services may be issued a stay and work permit if they meet the criteria referred to above and if the service provider is employed with a foreign employer and has adequate qualifications, and the foreign employer has concluded a contract with a company or trade in Croatia, provided that the services concerned involve specific services in the area of high technology and that the provision of such services is in the interest of Croatia.

Work permit outside the annual quota may be granted to foreigners who meet the prerequisites for temporary stay and:

- who perform key activities in a company that is a beneficiary of incentive measures in accordance with the regulation on investment incentives, or who hold an ownership share in such company of at least 51%,

- who perform jobs or carry out projects in Croatia pursuant to international treaties on professional and technical assistance that Croatia has concluded with the EU, some other state or an international organisation.

9.4 Issuing Residence and Work Permit – The EU Blue Card

Highly-qualified third-country nationals have to submit their application for work and residence permit at the diplomatic mission/consular post of Croatia or at the police administration/station in their intended place of residence. Residence and work permit (the EU Blue Card) simultaneously grants temporary residence and work in Croatia.

Residence and work permit can be granted to third-country nationals who meet the criteria stated in the Foreigners Act (a valid passport, health insurance, proof they have means of support) and enclose:

- work contract or some other corresponding contract for performing highly-qualified labour, lasting for at least a year
- proof of high school education or completed undergraduate and graduate studies or integrated undergraduate and graduate studies or specialist graduate studies.

The residence and work permit (the EU Blue Card) is issued in the form of biometric residence permit.

10. Sales Promotion

10.1 Restrictions on the Different Types of Sales Promotions

The Law on Unauthorised Advertising regulates different types of unauthorised advertising.

Misleading advertising is any advertising that in any way, including its presentation, misleads or is likely to mislead the person to whom it is addressed or the person who is likely to be affected and is likely to affect their economic behaviour or it is likely to hurt its competitors.

Misleading advertising is not allowed.

Comparative advertising is any advertising that directly or indirectly refers to a competitor, or which directly or indirectly refers to competitor's goods or services.

Comparative advertising is permitted only under certain conditions.

Free gifts

According to the Croatian VAT Act, the supply of goods for consideration shall not refer to the free awarding of samples in reasonable amount to buyer or future buyers and awarding gifts of little value carried out by the taxable person as part of its economic activity, under the condition that those gifts are given occasionally and not to the same persons. Gifts of little value refers to gifts with value under HRK160.

Discounts / sales

According to Croatian legislation, special sales forms are considered to be selling products at prices lower than the regular sales price. Special forms of sales include: sales, seasonal sales of products with defects and sale of products with expiration of use.

When a special form of sale lasts longer than three days, the merchant is obliged to point out the price in the regular sale and the discounted price that is applied during the duration of a special sales form.

Seasonal price reduction is a sale of products at a reduced price after the season has passed. According to Regulation on conditions and form of seasonal discounts, seasonal discounts can be carried out at most twice a year as follows:

- Winter seasonal discount starts on 27 December,
- Summer seasonal discount starts on 1 July.

The seasonal discount may take up to 60 days, counting from the above-mentioned dates. If, during this period, all discounted products have not been sold, the trader may continue to sell the product at a reduced price until the stock expires. However, this "descending subscription" is not allowed to advertise as a seasonal discount.

An action sale is the sale of certain products at a price that is lower than the price of that product in regular sale. A merchant is not obliged to point out the duration of the action nor is the commodity obligation on the action to be specifically marked with the words "action" or "action sale".

Selling products that have the defect - the trader must clearly, visibly and legibly indicate on the product or at the point of sale that the product is a defective product and that the consumer is aware of what the product defect is.

It is not allowed to sell goods at a price lower than its purchase price with VAT. This is considered to be unfair trading or acts of a trader that violate competition rules. However, unfair trading is not considered to be the sale of goods below its purchase price with VAT when it comes to the expiry of the validity period, the withdrawal of the goods from the assortment, the total sale due to the closure or bankruptcy and liquidation of the company or closing of the business or other reasons for which the trader does not act in order to prevent, restrict or distort competition.

10.2 Advertising

While the use of communication channels is shifting, television is still the most important media in Croatia for advertising. Outdoor advertising is also growing. According to Croatian Association of Communications Agencies (HURA), in 2017 by distribution 50% of advertising expenditure went to TV, 15% to newspapers, 17% to the internet, 8% to radio, 9% to out-of-home advertising and 1% to the rest.

The trend shows that use of online advertising is increasing, while the advertising in the print media decreases. However, print media publishers have recognised readers' readiness for content consumption, and their investments and focus shift to content distribution through their own internet portals. Online distribution of content is also increasingly used by TV networks, which are continuously developing and monetising online distribution of their video content. It is expected generally that the share of investments in online media will grow.

Croatia has four national state-owned (HRT 1, HRT 2, HRT 3, HRT 4) and several private TV channels (RTL, RTL 2, Nova TV, Doma TV, SPTV, RTL Kockica, CMC) as well as regional (for example Srce TV, Jabuka TV, Mreža TV-Zagreb, Kanal Ri, TV Istra) and local channels (Z1Televizija 4 Rijeke, Televizija Šibenik, Televizija Zapad); satellite and cable TV bring dozens of other channels into the market. Key TV stations include state-owned Croatia Radio Television and privately-owned RTL and Nova TV. The products that are mostly advertised in media are telecommunication products, vehicles, financial institutions, beverages and newspapers. Croatian regulations prohibit television advertisement of tobacco, alcohol, and spirits.

According to the Croatian Bureau of Statistics, in 2017, data on 27 TV broadcasters were presented. By status, there were one public and 26 independent TV broadcasters. The share of commercial programmme and non-programme contents of all TV broadcasters was 20.9%, out of which the state TV broadcasters participated with 7.5%, the regional ones with 29.7% and the local ones with 31.4%.

Furthermore, there were 147 radio stations in operation. There were four stations that broadcasted throughout the whole territory of Croatia. Others were either regional or local ones. According to their status, 18 stations were public, 11 were non-profit and 118 were independent.

As compared to 2016, the total broadcast of own programme expressed in hours increased by 1.05%, out of which the broadcast of state-owned radio stations and regional stations did not significantly change, while the broadcast of local ones increased by 1.06%.

The share of advertising spots in all radio stations was 4.8%, out of which this kind of program in the state-owned radio stations reached 2.4%, in the regional ones 4.2% and in the local ones 5.1%.

10.3 Internet Promotion

There are no special rules for internet promotion. Internet promotion is regulated under the same rules as the advertising through traditional media.

However, data protection rules have to be taken into consideration. General Data Protection Regulation is in force in the EU as of 25 May 2018. It is directly applicable in all European Member States. The stipulation that has the biggest impact on internet promotion is the one that concerns collecting an individual’s consent to data gathering and processing. GDPR requires that consent be active (as opposed to passive) and represent a genuine and meaningful choice.

One of the most important areas to note is that 'implied consent' or 'soft opt-in' will no longer be an option for B2C (personal) data. Under GDPR, consent must be explicit. Companies must be able to provide proof that an individual elected to opt-in to communications and didn't just fall onto the list by default - such as checking an unchecked 'opt-in' box on a form. 'Double opt-in' would also be best practice; where opt-in is followed up with a 'click to confirm' E-mail.

However, for corporate or business data, 'implied consent' means marketers are able to E-mail someone, so long as that person had the option to opt-out of E-mails at the time of purchase (or conversion - such as for form completions).

So, opt-in is compulsory for B2C data. However, there are two perspectives on GDPR opt-in. The first is consent, where a business must gather opt-ins from every B2C contact (as above). This is considered a best practice as it guarantees compliance. The second perspective is legitimate interest.

11. Other Aspects

11.1 Investment Rules and Regulations

Mergers and acquisitions

Croatia has implemented EU's competition rules. Competition Act lays down the competition rules and establishes the competition regime in Croatia. It also regulates work of the Croatian Competition Agency.

Croatian Competition Agency reviews different kinds of anticompetitive practices. Its job is to detect, assess and to sanction infringements of competition rules.

Mergers above a certain financial threshold must be notified to the Croatian Competition Agency for assessment. The Agency has the power to block mergers where it finds that it will lead to a "significant impediment to competition".[10]

11.2 Participating in Public Tenders

Public procurement is regulated by the Public Procurement Act (PPA), and public-private partnerships (PPPs) are governed by the Act on Public-Private Partnerships.

The PPA implements new public procurement directives (2014/24/EU and 2014/25/EU).

The most economically advantageous tender is the sole award criterion. Contracting authorities may not use price only or cost only as the sole award criterion. In such a case, the relative weights for price or cost cannot exceed 90% (except in cases of the negotiated procedure without prior publication, the awarding of the contract is based on a framework agreement or in the case of procurement involving defence and security aspects, etc.).

[10] www.aztn.hr/en/antitrust-and-mergers/

Contracting authorities have obligation to conduct prior market consultations with the interested economic operators on the draft procurement documents, in particular with respect to the subject matter of the tender, technical specifications, criteria for qualitative selection, contract award criteria and special conditions relating to the performance of a contract.

PPP has a significant role in the development of infrastructure projects and providing public services of a higher quality. In the beginning, the concession model of PPP was mostly applied for construction of roads and communal infrastructure.

11.3 Local Investment Incentives

Incentive measures for investment projects

Incentive measures for investment projects in Croatia are regulated by the Act on Investment Promotion and pertain to investment projects in:

- manufacturing and processing activities,
- development and innovation activities,
- business support activities,
- high added value services.

Incentive measures can be used by enterprises registered in Croatia investing in fixed assets with a minimum amount of:

- EUR50,000 together with creating at least 3 new jobs for microenterprises
- EUR150,000 together with creating at least 5 new jobs for small, medium and large enterprises
- EUR50,000 together with creating at least 10 new jobs for ICT system and software development centers

The amount of aid shall be calculated as a percentage of investment value, which is determined on the basis of eligible investment cost. Eligible investment costs are:

- tangible (value of land/buildings and plant/machinery) and intangible assets (patent rights, licenses, know-how), or
- gross wage calculated over a period of two years

The minimum period for maintaining the investment and newly created jobs linked to an investment is five years for large enterprises, and three years for small and medium-sized enterprises, but no less than the period of use of the incentive measures.

The eligible costs for the purpose of training may include trainers' personnel costs, for the hours during which the trainers participate in the training; trainers' and trainees' operating costs directly relating to the training project such as travel expenses, materials and supplies directly related to the project, depreciation of tools and equipment, to the extent that they are used exclusively for the training project. Accommodation costs are excluded; costs of advisory services linked to the training project; trainees' personnel costs and general indirect costs (administrative costs, rent, overheads) for the hours during which the trainees participate in the training.

Incentives will not be awarded for the training conducted to ensure compliance with the mandatory training prescribed by national norms.

The aid intensity shall not exceed 50% of the eligible costs. It may be increased, up to a maximum aid intensity of 70% of the eligible costs, as follows:

- by 10 percentage points if the training is given to workers with disabilities or disadvantaged workers;
- by 10 percentage points if the aid is granted to medium-sized enterprises and by 20 percentage points if the aid is granted to small enterprises.

The aim of Act on State Aid for Research and Development Projects is to increase private sector investment in research and development and to increase the number of entrepreneurs investing in research and development as well as to foster co-operation between entrepreneurs and institutions for research and knowledge dissemination in research and development projects.

The maximum intensity of support to which a user can exercise the right on any ground based on this Act, including other legal grounds, may be up to:

- 100% of the eligible project costs for basic research
- 50% of the eligible project costs for industrial research
- 25% of the eligible project costs for experimental development
- 50% of the eligible costs for feasibility studies.

The total amount of research and development support that a beneficiary per project can achieve under this Act is as follows:

- for predominantly basic research: the amount in kuna equivalent of up to EUR300,000 per entrepreneur per project
- for predominantly industrial research: the amount in kuna equivalent of up to EUR200,000 per entrepreneur per project
- for predominantly experimental development: the amount in kuna equivalent to EUR100,000 per entrepreneur per project
- for feasibility studies in the preparation of research activities: the amount in kuna equivalent to EUR50,000 per study.

The highest overall amount of aid for an R&D project that an individual entrepreneur can achieve under this Act and other legal bases is as follows:

- for predominantly basic research: the amount in kuna equivalents up to EUR40 million per entrepreneur per project
- for predominantly industrial research: the amount in kuna equivalent of up to EUR20 million per entrepreneur per project

- for predominantly experimental development: the amount in kuna equivalent to EUR15 million per entrepreneur per project.
- for feasibility studies in the preparation of research activities: the amount in kuna equivalent to EUR7.5 million per study.

The Beneficiary is supported by additional deduction of the tax base for the eligible costs of R&D projects or for feasibility studies, in accordance with the corporate income tax or personal income tax regulations, in the following total percentages:

- 200% of the eligible project costs for basic research
- 150% of the eligible project costs for industrial research
- 125% of the eligible project costs for experimental development
- 150% of the eligible costs for the feasibility study.

Entrepreneurs must submit a grant application before starting the project activities. Project implementation period is up to three years from the beginning of the project.

11.4 Risk Portfolios

11.4.1 Restrictions on profit repatriation

Profit repatriation

The Constitution of Croatia guarantees free transfer of capital and free profit repatriation to investors and Croatian laws guarantee equal rights for domestic and foreign private and legal entities.

Transfer pricing

Croatia is not an OECD member but it follows OECD Transfer Pricing Guidelines. Croatian CIT Act contains detailed transfer pricing provisions that prescribe that all business transactions between related parties, of which one is a resident while the other is a non-resident, must be effected at arm's length,

that is, at “fair market value”. These rules also apply to transactions between two Croatian residents if one of the related parties has special tax status (pays corporate income tax at reduced rates) or has a tax-loss carry-forward.

Neither CIT Act nor Bylaw explicitly regulates the content of transfer pricing documentation. However, the CIT Act stipulates which transfer pricing methods can be used, while the CIT Bylaw prescribes requirements to transfer pricing documentation, such as:

- Identification of the chosen method and reasons for choosing it;
- Description of data, explanation of the method of analysis used to establish the transfer price;
- Explanation on assumptions and assessments used to establish the result according to the principles of an impartial transaction (risk analysis, functional analysis and comparability);
- Explanation on all calculations used for the selection of the appropriate method;
- Documents relating to previous years, which were used as a basis for the current year should be updated on a regular basis;
- Documents that can support the transfer pricing calculations or are mentioned / used for the purpose of the analysis have to be kept in the documentation.

A transfer pricing documentation should be in Croatian language.

Based on current practice of the Croatian authorities, the following documents have to be prepared (the requirements are in line with the OECD Guidelines):

- Master File (on the group level);
- Country Specific File (on the level of the local group companies).

The CIT Act does not prescribe any specific deadline to provide transfer pricing documentation. There is no legal obligation to submit transfer pricing documentation together with the regular tax returns.

Transfer pricing documentation should be kept and maintained by the taxpayer, ready to be delivered to tax authorities for the purposes of a tax inspection. The failure to present the transfer pricing documentation when requested by the tax audit will result in penalties amounting up to EUR26,666 for taxpayer and up to EUR2,666 for director. Due to the fact, that Master file is integrated part of transfer pricing documentation, local tax audit will require also an access to the Master file.

Furthermore, according to the General Tax Act, the taxpayer is obliged to participate in the tax procedures by completely and truly presenting the facts important to taxation and by submitting credible evidences for his statements.

11.4.2 Ease of doing business

Some of the most important rankings in ease of doing business include World Bank's Doing Business and World Economic Forum's Global Competitiveness Report.

World Bank's Doing Business is an annual report, which analyses and compares the business regulatory environment among selected economies by evaluating their ease of doing business in 10 different thematic areas of business regulations.

In 2018's Doing Business report, Croatia ranks 51st out of 190 analysed economies. Croatia's rank is above Regional Average (Europe and Central Asia), higher than Greece (67th) and Albania (65th), but after Slovenia (37th) or Hungary (48th).[11]

Croatia's rankings for individual factors considered in the World Bank study are:

- Ease of starting a business: 87th place out of 190
- Dealing with construction permits: 126th place out of 190
- Getting electricity: 75th place out of 190

[11] www.doingbusiness.org/data/exploreeconomies/croatia

- Registering property: 59th place out of 190
- Getting credit: 77th place out of 190
- Protecting minority investors: 29th place out of 190
- Paying taxes: 95th place out of 190
- Trading across borders: 1st place out of 190
- Enforcing contracts: 23rd place out of 190
- Resolving insolvency: 60th place out of 190

According to the World Economic Forum's Global Competitiveness Report Croatia ranks 74th. Croatia is ranked higher than Serbia (78th), but after Slovak Republic (59th).[12]

11.4.3 Double Taxation Treaty (DTT)

Croatia has an extensive network of double taxation treaties. Full list of Agreements which Croatia has concluded is available on the Croatian Tax authority's website.[13]

Sino-Croatia DTT entered into force on 1 January 2002.

11.4.4 Investment Promotion and Protection Agreements (IPPAs)

Croatia and China have concluded Agreement between the Government of the Republic of Croatia and the Government of People's Republic of China concerning the encouragement and reciprocal protection of investments in 1993. Overview of Bilateral Treaties of Croatia is available on the Croatia's Ministry of foreign and European affairs website.[14]

[12] www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf

[13] https://www.porezna-uprava.hr/en/EN_porezni_sustav/Pages/double_taxation.aspx

[14] www.mvep.hr/en/foreign-politics/bilateral-relations/overview-by-country/china,66.html

11.4.5 Currency exchange controls

There are no currency exchange restrictions in Croatia.

11.4.6 Sanctions and restrictive measures

Croatia implements, enforces or removes international restrictive measures against countries, international organisations, territorial entities, movements or physical or legal persons according to the Act on International Restrictive Measures.

The restrictive measures imposed by the corresponding UN Security Council resolutions are enforced due to the commitments undertaken by the UN Charter, as an international agreement which is, further to Article 140 of the Constitution of Croatia, considered part of the internal legal order of Croatia with the legal force above the law.

Croatia directly implements EU's restrictive measures that are in force.

Consolidated United Nations Security Council sanctions list can be found on UN's special website.[15] Sanctions applicable at EU level are available on the European Commission's website.[16]

[15] https://www.un.org/sc/suborg/en/sanctions/un-sc-consolidated-list

[16] https://eeas.europa.eu/sites/eeas/files/restrictive_measures-2017-04-26-clean.pdf

12. Useful Contacts

- **Chinese Embassy in Croatia**
  Mlinovi 132
  10000 Zagreb
  Croatia
  Tel: +385 1 46 37 011
  Fax: +385 1 46 37 012
  E-mail: e.c.office.chn@zg.htnet.hr
  Website: http://hr.china-embassy.org/eng/

- **Ministry of Environment and Energy**
  Radnička cesta 80
  10000 Zagreb
  Croatia
  Tel: +385 1 3717 111
  Fax: +385 1 3717 149
  Website: www.mzoip.hr/en/

- **Energy Efficiency and Environmental Protection Fund**
  Radnička cesta 80
  10000 Zagreb
  Croatia
  Tel: +385 1 5391 800
  Fax: +385 1 5391 810
  E-mail: kontakt@fzoeu.hr
  Website: www.fzoeu.hr/

- **Ministry of Foreign and European Affairs**
  Trg N.Š. Zrinskog 7-8,
  10000 Zagreb
  Croatia
  Tel: +385 1 4569 964
  Fax: +385 1 4551 795, +385 1 4920 149
  E-mail: ministarstvo@mvep.hr
  Website: www.mvep.hr/en/

- **Ministry of Finance**
  Katančićeva 5
  10000 Zagreb
  Croatia
  Tel: +385 1 4591 333
  Fax: +385 1 4922 583
  Website: www.mfin.hr/en/about-us

- **Ministry of Health**
  Ksaver 200a
  10000 Zagreb
  Croatia
  Tel: +385 1 46 07 555
  Fax: +385 1 46 77 076
  Website: https://zdravlje.gov.hr/

- **Ministry of the Interior**
  Ulica grada Vukovara 33
  10 000 Zagreb
  Croatia
  Tel: +385 1 6122 111
  E-mail: pitanja@mup.hr, policija@mup.hr
  Website: www.mup.hr, www.policija.hr

- **Tax Administration**
  Boškovićeva 5
  10 000 Zagreb
  Croatia
  Tel: +385 1 480 9000
  Website: https://www.porezna-uprava.hr/en/Pages/default.aspx

- **Croatian Bureau of Statistics**
  Ilica 3
  10000 Zagreb
  Croatia
  Tel: +385 1 4806 111

Fax: +385 1 48 12 740
E-mail: ured@dzs.hr
Website: https://www.dzs.hr/default_e.htm

Branimirova 19
10000 Zagreb
Croatia
Tel: +385 1 4893 444
E-mail: ured@dzs.hr
Website: https://www.dzs.hr/default_e.htm

- **Ministry of Economy, Entrepreneurship and Crafts**
  Ulica grada Vukovara 78
  10 000 Zagreb
  Croatia
  Tel: +385 1 6106 111
  E-mail: info@mingo.hr
  Website: https://www.mingo.hr/

- **Croatian National Bank**
  Trg hrvatskih velikana 3
  10000 Zagreb
  Croatia
  Tel: +385 1 45 64 555
  Fax: +385 1 46 10 551
  E-mail: info@hnb.hr
  Website: https://www.hnb.hr/en

- **Ministry of Labour**
  Ulica grada Vukovara 78
  10000 Zagreb
  Croatia
  Tel: +385 1 61 06 835
  E-mail: info@mrms.hr
  Website: www.mrms.hr/

- **Croatian Health Insurance Fund**
  Margaretska 3
  10000 Zagreb
  Croatia
  Tel: 0800 7979
  Fax: +385 1 48 12 606
  Website: www.hzzo.hr/en/

- **Croatian Employment Service**
  Ulica kralja Zvonimira 15
  10000 Zagreb
  Croatia
  Tel: +385 1 46 99 999
  Fax: +385 1 46 99 955
  E-mail: HZZ.Zagreb@hzz.hr
  Website: www.hzz.hr/default.aspx?id=18019

- **Croatian Pension Insurance Institute**
  A. Mihanovića 3
  10000 Zagreb, Croatia
  Tel: +385 1 45 95 500
  Fax: +385 1 45 95 063
  Website: www.mirovinsko.hr/default.aspx

- **Zagreb Fair**
  Avenija Dubrovnik 15
  10 020 Zagreb, Croatia
  Tel: +385 1 650 3111
  Fax: +385 1 652 0643
  E-mail: zagvel@zv.hr
  Website: www.zv.hr/

- **Croatian Association of Communications Agencies (HURA)**
  Zavrtnica 17, 10000 Zagreb, Croatia
  Tel: +385 1 581 0033
  E-mail: hura@hura.hr
  Website: http://hura.hr/

- **Croatian Agency for Small and Medium Enterprises, Innovation and Investments (HAMAG-BICRO)**
  Ksaver 208
  10000 Zagreb
  CROATIA
  Tel: + 385 1 488 1003
  E-mail: investments@hamagbicro.hr
  Website: www.investcroatia.hr

13. Web Resources

➢ **Agency for Investments and Competitiveness**	www.aik-invest.hr/
➢ **Croatian National Bank**	https://www.hnb.hr/en
➢ **Croatian Competition Agency**	https://www.onrc.ro/index.php/ro/
➢ **Croatian Standards Institute**	https://www.sanctionsmap.eu/#/main
➢ **Croatian Chamber of Economy**	https://www.hgk.hr/
➢ **Croatian Chamber of Economy – Investment Promotion Division**	www.investincroatia.hr
➢ **Croatian National Tourist Board**	https://htz.hr/en-GB
➢ **Customs Authorities**	https://carina.gov.hr/
➢ **Patent Office**	www.dziv.hr/en/
➢ **Portal of Public Procurement**	www.javnanabava.hr/default.aspx?id=3992
➢ **Tax Administration**	https://www.porezna-uprava.hr/en/Pages/default.aspx